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Why and how do institutional investors operationalize corporate (ir)responsibility?

Exploring the motives, manifestations and systemic mechanisms of institutional responsible investing in the Nordics

Master’s thesis

Espoo, July 5, 2020

Supervisor: Assistant Professor Mikko Jääskeläinen

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Author: Eero Vartiainen	ABSTRACT OF MASTERS' THESIS
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Responsible investing has been extensively studied in management literature. Many studies have identified investors' responsible investing motives and practices, but few have analyzed responsible investing from a systemic perspective. Moreover, existing literature has mostly seen corporate responsibility as a linear business problem and is, from the perspectives of sustainability and systems sciences, quite detached from the most important issues in ecological sustainability and the long-term wellbeing and equality of the humankind.

To address this gap, this study aims at answering why and how Nordic institutional investors operationalize responsible investing and which perspectives on different corporate responsibilities this reflects. The study applies an inductive grounded approach utilizing an interdisciplinary review of literature and an empirical sample of 18 semi-structured interviews of Nordic asset owners and managers.

The study proposes a systemic framework in which the identified motives, practices and contextual antecedents of Nordic institutional responsible investing are interconnected through six key mechanisms. Moreover, the study discusses how the current form of Nordic institutional responsible investing reflects five identified archetypes of corporate responsibility perspectives, concluding that the Weberian "iron cage" of fiduciary duty is the main constraint for strong sustainability-compatible corporate responsibility to emerge.

The study has important implications for literatures concerning the socially constructed, systemic, wicked and (un)sustainable nature of responsible investing, and institutional isomorphism among responsible investors. For managers and policymakers, the study provides a new systemic and paradoxical framing of responsible investing and discusses how transforming responsible investing towards strong sustainability depends on wide system-level reforms.

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Työn nimi: Miksi ja miten institutionaaliset sijoittajat operationalisoivat yritysvastuu(ttomuut)ta?	
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Johtamiskirjallisuudessa on tutkittu laajasti vastuullista sijoittamista. Kirjallisuus on tunnistanut sijoittajien motiiveja sijoittaa vastuullisesti sekä vastuullisen sijoittamisen käytäntöjä, mutta harvat tutkimukset ovat tarkastelleet vastuullista sijoittamista systeemisenä ilmiönä. Lisäksi olemassa oleva kirjallisuus on pääosin nähnyt yritysvastuun lineaarisena liiketoimintaongelmana, mikä kestävyys- ja systeemitieteiden näkökulmasta tarkoittaa, ettei ekologisen kestävyyden ja ihmiskunnan pitkäaikaisen hyvinvoinnin ja tasa-arvon kysymyksiä ole kunnolla huomioitu.

Tässä opinnäytetyössä tutkitaan miksi ja miten pohjoismaiset institutionaaliset sijoittajat operationalisoivat vastuullista sijoittamista sekä millaisia näkemyksiä erilaisista yritysvastuista tämä heijastaa. Tutkimuksessa sovelletaan induktiivista, ankkuroitua (grounded) lähestymistapaa hyödyntäen poikkitieteellistä kirjallisuuskatsausta ja 18:ta pohjoismaisen loppusijoittajan ja varainhoitajan teemahaastattelua.

Johtopäätöksenään tutkimus esittää systeemitason mallin, jossa pohjoismaisen vastuullisen sijoittamisen tunnistetut motiivit, käytännöt ja kontekstuaaliset taustasyyt yhdistyvät kuuden mekanismin kautta toisiinsa. Lisäksi tutkimus pohtii, miten nykyinen pohjoismainen institutionaalinen vastuullinen sijoittaminen heijastaa viittä tunnistettua yritysvastuunäkökulman arkkityyppiä. Tämän suhteen tutkimus toteaa, että varainhoidollisen vastuun weberläinen ”rautahäkki” on tärkein este vahvan kestävyyden kanssa yhteensopivan yritysvastuun syntymiselle.

Tutkimuksella on tärkeitä implikaatiota tutkimuskirjallisuuteen, joka liittyy vastuullisen sijoittamisen sosiaalisesti konstruoituun, systeemiseen, visaiseen ja ei-kestävään luonteeseen, sekä institutionaaliseen isomorfismiin vastuullisten sijoittajien keskuudessa. Yritysten ja yhteiskunnan päättäjille tutkimus tarjoaa uuden systeemisen ja paradoksaalisen viitekehyksen vastuullisen sijoittamisen tarkasteluun ja esittää, että vastuullisen sijoittamisen muuttaminen vahvan kestävyyden suuntaan riippuu laajoista järjestelmätason uudistuksista.

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Avainsanat: yritysvastuu, vastuullinen sijoittaminen, kestävä kehitys, kestävä rahoitus, institutionaalinen isomorfismi, visaiset ongelmat, organisatorinen huomiokyky

"Corporation: An ingenious device for obtaining individual profit without individual responsibility. Responsibility: A detachable burden easily shifted to the shoulders of God, Fate, Fortune, Luck or one's neighbor. In the days of astrology, it was customary to unload it on a star."

Ambrose Bierce, The Devil's Dictionary, 1911

"To some extent, you have to be a cynical pessimist to be able to study this topic… people talk bullshit and do something else."

Interviewee number 14 of the study, 2019

“For when asceticism was carried out of monastic cells into everyday life, and began to dominate worldly morality, it did its part in building the tremendous cosmos of the modern economic order. This order is now bound to the technical and economic conditions of machine production which today determine the lives of all the individuals who are born into this mechanism, not only those directly concerned with economic acquisition, with irresistible force. Perhaps it will so determine them until the last ton of fossilized coal is burnt. In Baxter’s view the care for external goods should only lie on the shoulders of the 'saint like a light cloak, which can be thrown aside at any moment.' But fate decreed that the cloak should become an iron cage”.

Max Weber, Die protestantische Ethik und der Geist des Kapitalismus, 1905

Foreword

As I am writing these words in the early summer of 2020, the attention of the world is on the global coronavirus pandemic. After shutdowns of entire economies and month-long quarantining of most nations, governments all over the world ponder on how and when to open societies again. The small philosopher inside me is quite fascinated. Of course, not because of the devastation the virus has caused, but because of the depth and liveliness of a discussion it has provoked between politicians, economists, business leaders, doctors, epidemiologists, historians, futurologists, other scientists and us ordinary citizens. It appears to me that the abrupt halt of normal order may have helped us see and question the very principles on which our societies work.

Urgent calls for getting back to the "normal" as fast as possible are being challenged by rather unorthodox economic proposals, fierce warnings of climate scientists and ecologists, and a philosophical discussion on the relative value of money, human lives and nature. Most interestingly, the very notion that there exists an economy, an independently identifiable entity free of other walks of human and non-human life, is put under scrutiny. Perhaps we have never been economic (Latour, 1991), perhaps there has never been a true distinction between the economic and the societal or between the societal and the natural. Perhaps we have fallen into the prophecy of Lord Keynes (1936): *"The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else."*. It is hard for me to think about a more topical time to dwell into the subject matter of my thesis study: the fundamentals of corporate responsibility.

Looking back, my research process resembles climbing a sequoia tree butt first. When I decided to pursue this topic, I had little else than a vague idea of what I was going to study. My scope was, according to one commentator, "the breadth of a new field of research". I had taken no formal coursework on the topic which is not taught nor researched at my department. But with a mix of stubbornness, childish hunger for knowledge and the support of several people, I can genuinely be happy with the result. I want to thank my supervisor Assistant Professor Mikko Jääskeläinen for letting me take such a non-traditional approach for an engineering thesis and helping me through it even though the subject matter is not your specialty. Thank you Technology Industries of Finland for trusting my far-fetched research proposal and funding my research with a grant. Thank you Helena Soimakallio, Piritta Lindell and Annu Nieminen for helping shape my research agenda in the early stages. Thank you all the interviewees who took the time to guide me into the world of responsible investing. Thank you

Jorma Turunen, Lassi Linnanen, Lauri Järvilehto and Petri Kuusisto for providing invaluable comments to my draft texts. Thank you Henna, Olli and Rasmus for your splendid proofreading. And finally, thank you Mom, Dad and Johanna for keeping my head above the surface in times I was drowning.

In this study, I mention numerous times how I see corporate responsibility as a socially constructed phenomenon. Hence, it would be foolish to claim that I myself could be free of socially constructing my research. Naturally, I have done my best to preserve not only the arguments but also the tones of voice and unspoken meanings of my interviewees and provide as holistic a summary of the literature as possible. But I do not feel that taking a strong stance in academic research is necessarily a bad thing as long as one acknowledges doing so. There is a reason why economics used to be called political economy. I believe that in times of clickbait journalism and alternative facts, thorough and well-argued pieces of social research, despite their strongly narrative tone, can have their place in influencing how we decide about our urgent societal matters. In the words of Keynes (1933), once again, I do believe that:

"Words ought to be a little wild, for they are the assaults of thoughts upon the unthinking."

Espoo, July 5, 2020

Eero Vartiainen

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Terms and abbreviations

AGM	Annual general meeting
AUM	Assets under management
CDP	The Carbon Disclosure Project[1]
CFP	Corporate financial performance
CR	Corporate responsibility. To emphasize the ambiguity in different approaches of to whom, for what and how corporations are responsible, this term is used instead of a better recognized but more loaded expression corporate social responsibility.
CSP	Corporate social performance. The measurable actions and outcomes of corporate (social) responsibility.
CSR	Corporate social responsibility
ESG	Environmental, social and corporate governance factors in corporate responsibility.
family office	*A privately held company that handles investment management and wealth management for a wealthy family.*[2]
fiduciary duty	An obligation *to act in the best interest of the principal, the party whose assets one is managing.*[3]
greenwashing	*To make people believe that your company is doing more to protect the environment than it really is.*[4]
HRM	Human resources management
IM	Investment manager
institutional isomorphism	*Similarity of the processes or structure of one organization to those of another, be it the result of*

[1] https://www.cdp.net/en, Accessed 8.6.2020
[2] https://en.wikipedia.org/wiki/Family_office, Accessed 8.6.2020
[3] https://www.investopedia.com/terms/f/fiduciary.asp, Accessed 8.6.2020
[4] https://dictionary.cambridge.org/dictionary/english/greenwash, Accessed 8.6.2020

	imitation or independent development under similar constraints.[5]
investor	Used mostly to refer to the interviewed institutional investment organizations but, in some chapters, also to individual investment professionals working for the organizations.
iron cage	*A metaphor developed by Max Weber to capture the effects of increased rationalization in society, which leads to people becoming trapped in a 'cage' of systems that focus on rational calculations and efficiency at the expense of other qualities. Weber observed that the technical and economic conditions of machine production had become an irresistible force that determines the lives of everyone born into this system, leading to disenchantment and constrained freedom.* (Jeanes, 2019)
KLD	A responsibility rating agency founded by Kinder, Lydenberg and Domini in 1989 (Sharfman, 1996). Currently owned by MSCI.[6]
MSCI	A leading responsibility rating agency formerly known as Morgan Stanley Capital International.
NGO	Non-governmental organization
operationalization	Execution or actualization. In the context of responsible investing includes but is not limited to responsibility terminology, practices and measures based on comprehensions about responsibility.
PE	Private equity
PR	Public relations
PRI	United Nations Principles of Responsible Investment[7]

[5] https://en.wikipedia.org/wiki/Isomorphism_(sociology), Accessed 8.6.2020
[6] https://www.msci.com/msci-kld-400-social-index, Accessed 8.6.2020
[7] https://www.unpri.org/pri/about-the-pri, Accessed 8.6.2020

R&D	Research and development
responsibility	Used as an overarching umbrella term for various terms and practices related to corporate responsibility and sustainability.
RI	Responsible investing
SDG	United Nations Sustainable Development Goals[8]
SIB	Social impact bond. *A form of outcomes-based contracting aimed at improving the social outcomes for a specific group of citizens.*[9]
SRI	Socially responsible investing
sustainability	Used mostly to refer to sustainable development, i.e. *the organizing principle for meeting human development goals while simultaneously sustaining the ability of natural systems to provide the natural resources and ecosystem services upon which the economy and society depends.*[10]
wicked problem	*A problem that is difficult or impossible to solve because of incomplete, contradictory, and changing requirements that are often difficult to recognize. It refers to an idea or problem that cannot be fixed, where there is no single solution to the problem; and "wicked" denotes resistance to resolution, rather than evil.*[11]

[8] https://sustainabledevelopment.un.org/?menu=1300, Accessed 8.6.2020
[9] https://en.wikipedia.org/wiki/Social_impact_bond, Accessed 8.6.2020
[10] https://en.wikipedia.org/wiki/Sustainable_development, Accessed 8.6.2020
[11] https://en.wikipedia.org/wiki/Wicked_problem, Accessed 8.6.2020

1 Introduction

1.1 Motivation

"Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."

Larry Fink, Chairman and CEO of BlackRock, Annual letter to CEOs 2018

The purpose and responsibilities of companies have re-entered the spotlight of public discussion in recent years. Though the theme has interested economic philosophers for centuries and the term *corporate social responsibility* (CSR) has existed more than half a century (Bowen, 1953/2013), there has perhaps not been such a fierce discussion about the fundamentals of the corporate realm since Milton Friedman (1970/2007) laid out his famous doctrine of shareholder value maximization as the one and only purpose of companies.

Recently, substantial investors, companies, economic media and scholars have addressed the topic. The world's largest asset manager, BlackRock, has publicly demanded companies to contribute to society[12] and take the existence and implications of climate change into account in their actions[13] to maintain investors' support in the future. Business Roundtable, a coalition of the most prominent American CEOs, has announced that the purpose of companies must be redefined by including stakeholders to the old shareholder focus[14]. In the economic media, The Financial Times have stated that capitalism must be reset to derive its profits from purpose[15]. Prominent management scholars have proposed new paradigms of companies' purpose – a case in point is Porter and Kramer's (2011) concept *Shared value*, in which responsibility and sustainability are not words of marketing but the starting point and core of every business strategy.

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[12] https://www.blackrock.com/hk/en/insights/larry-fink-ceo-letter, Accessed 20.1.2020
[13] https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter?cid=ppc:BlackRock_USWA:google:sitelink-larryfinkletter&gclid=EAIaIQobChMIn-Ka6drx5AIVJYNaBR0ljQuqEAAYASABEgI57_D_BwE&gclsrc=aw.ds, Accessed 20.1.2020
[14] https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans, Accessed 20.1.2020
[15] https://aboutus.ft.com/en-gb/new-agenda/, Accessed 20.1.2020

Though corporate responsibility literature is a broad and much studied field, its current mainstream seems to be detached from *sustainability studies* (Bansal and Song, 2017; Korhonen, 2003) that concern both ecological (planetary) constraints (Landrum, 2018) and sustainable human development (UNDP, 2019; Gerard et al., 2016). Moreover, the prevailing business-driven framing in mainstream corporate responsibility research is ill-suited for answering the most pressing societal and ecological problems of our time that are systemic and *wicked*[16] in their nature (Bansal et al., 2018; Bansal and Song, 2017; Hahn et al., 2014).

However, different perspectives on corporate responsibility, despite their differences (see e.g. Godfrey, 2005), might not be mutually exclusive or incompatible. Maximizing shareholder value might not mean that stakeholders or the climate are not considered at all. Quite contrary, taking the latter factors into account might be the very prerequisite for the former to happen. But which perspectives are currently prevalent, and are different perspectives mutually incompatible, in the first place? The answer to these questions lies in the ways the perspectives are transformed into practices – the *operationalization* of corporate responsibility. Institutionalized laws and public opinion at the societal level (Matten and Moon, 2008; Carroll, 1991) and the lingo, practices and measurement attempts at the company level (Maas et al., 2016; Eccles et al., 2014; Wood, 1991) determine which perspective(s) of corporate responsibility our economies currently manifest. Once again, the devil is in the practical details of corporate responsibility.

One group of economic agents – the whole term being a case in point of economic literature's marvelous ability to business-jargonize about everything it encounters – that are perhaps the most suitable for such an analysis about the fundamentals of corporate responsibility are institutional investors. First, professional investors encounter the issue of operationalizing corporate responsibility all the time while making investment decisions, and have thus created a broad variety of responsible investing strategies and practices (Eccles and Klimenko, 2019; Amel-Zadeh and Serafeim, 2018; Eurosif, 2018; Busch et al., 2016). Second, the views and consequent actions of these investors do really matter; despite being few in number, they are financially extremely powerful. In Finland, the aggregate assets under management of the few pension funds[17] are almost four times the annual governmental budget[18] or close to the annual gross domestic product[19]. The world's largest sovereign wealth fund, the Norwegian Government Pension Fund Global, owns on average

[16] *"A problem that is difficult or impossible to solve because of incomplete, contradictory, and changing requirements that are often difficult to recognize. – 'Wicked' denotes resistance to resolution, rather than evil."* https://en.wikipedia.org/wiki/Wicked_problem, Accessed 8.6.2020
[17] https://www.tela.fi/en/summary_of_investment_assets, Accessed 21.4.2020
[18] https://tutkibudjettia.fi/etusivu, Accessed 21.4.2020
[19] https://www.tilastokeskus.fi/tup/suoluk/suoluk_kansantalous_en.html, Accessed 21.4.2020

1,5% of the global stock market.[20] To understand the foundations of corporate responsibility, we can hence ask: what do these titans of capitalism really mean and do when they call themselves responsible investors?

1.2 Research objectives, scope and methodology

The objective of this thesis is to understand why and how Nordic institutional investors operationalize corporate responsibility, and what kind of views on corporate responsibility do they manifest by doing so. This aim is approached with the following research questions:

- *RQ1: Why are Nordic institutional investors interested in responsible investing?*
- *RQ2: How do Nordic institutional investors operationalize responsible investing?*
- *RQ3: What kinds of perspectives on corporate responsibilities do Nordic institutional investors' current operationalizations of responsible investing reflect?*

The study is conducted as a semi-structured multiple case interview research that explores the topic in an inductive manner (Yin, 2017). To ensure the rigor of its *grounded* theory-building (interview data-led, cross-disciplinary and aimed at providing novel and unorthodox views on a broad phenomenon, that is) the study combines Eisenhardt's (1989) case study method and the iterative *Gioia methodology* (Gioia et al., 2013) in the data analysis while still not strictly adhering to either of the methodologies.

The focus is on the Nordics, where the institutionalized conditions are rather homogenous, and on institutional investors who not only are one of the most powerful of all economic agents but also rather homogenous in their motives and practices, compared to e.g. retail investors. Though the majority of the interviewees were located in Finland, many of them represent pan-Nordic entities making it possible to generalize the findings in the Nordic context. The sample consists of asset owners, here pension funds, and asset managers that serve both institutional and retail clients. The focus is on investors who engage with established, mostly listed, companies, who do not have a single primary beneficiary, and who are not tied to *absolute return*[21] targets. Therefore, private equity (PE) funds, family offices and hedge funds are excluded from the study. To get a comprehensive view on these investment companies, the interviewees include top management, fund managers and responsibility professionals from different levels of seniority. The total sample size is 18 interviews.

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[20] https://www.nbim.no/en/, Accessed 21.4.2020
[21] https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/absolute-return/, Accessed 28.5.2020

1.3 Structure and outline of the thesis

The thesis consists of five main parts: introduction, review of literature, methodology, findings and discussion. The introduction motivates the study, lists its objectives and scope. The literature review in Chapters 2, 3 and 4 lays down the theoretical groundwork for the study. Chapter 2 discusses the ambiguous nature of corporate responsibility, presents five archetypal perspectives to it, and discusses how these perspectives approach fundamental questions of corporate responsibility, such as to whom and for what companies are responsible. Chapter 3 concerns the motives of investment firms to engage in responsible investing and summarizes these to a list of motives related to investment performance, marketing and human resources management. Chapter 4 presents a summary on the literature concerning actual responsible investing practices and investment strategies, as well as lists and discusses the leading 3rd party measures that investors use to quantify responsibility. Chapter 5 describes the study's methodology, i.e. the study design, sampling, interview process, data analysis and reliability and validity.

Chapter 6 summarizes the empirical findings under two main subthemes: why are investors interested in responsible investing (Chapter 6.1), and how have investors operationalized responsibility into practices and measures (Chapter 6.2). The key message of Chapter 6.1 is that the investment organizations' motives for responsible investing result both from the societal antecedents of corporate responsibility, namely from the obligation of fiduciary duty, and from the instrumental projection of individuals' non-financial primary motives to the organizations' financial motives. The key message of Chapter 6.1, in turn, is that operationalizing (practicing) responsible investing is constrained not only by the aforementioned motives but also by cognitive, knowledge-related and technical limits. In particular, investors seem to be dependent on the responsibility measures of 3rd party responsibility rating agencies, and the relationship of the two seems to resemble the interdependent relationship of lenders and credit rating agencies.

Chapter 7 distills the key findings into two concluding frameworks: Figure 4 summarizes why and how investors operationalize responsible investing (research questions 1 and 2), and Table 14 discusses how the five perspectives on corporate responsibility are and are not reflected in the current form of Nordic institutional responsible investing (research question 3). The chapter also discusses key implications for theory and practice, as well as limitations and possible future avenues for research. Finally, Chapter 8 provides a brief concluding summary of the whole study.

2 Corporate responsibilities

2.1 Perspectives on corporate responsibility

Despite the wide use of the term *corporate social responsibility*, there is no clear consensus on its exact definition (Montiel and Delgado-Ceballos, 2014; Berry and Junkus, 2013). Though most definitions include components related to stakeholders, the environment, social and governance issues, and voluntariness beyond corporate law (Dahlsrud, 2008), their connotations and relative importance vary between different academic circles (Montiel and Delgado-Ceballos, 2014). There is, however, a deeper level of meaning behind the definitions of corporate responsibility. Lacking an exact and undisputed definition, corporate responsibility is a socially constructed expression (Matten and Moon, 2008) meaning that it implicitly reflects broad views on how the realm of business is related to societies and the environment around it.

Most of the definitions imply that corporations are indeed responsible to instances outside them (Montiel and Delgado-Ceballos, 2014; Berry and Junkus, 2013), and it is precisely the target and extent of this responsibility that conveys a more profound view of the interplay between corporations, societies and the environment. To emphasize this ambiguity in different approaches of to whom and for what corporations are responsible, this study uses the term *corporate responsibility,* or CR, instead of a perhaps better recognized but more loaded expression *corporate social responsibility* (CSR). It also treats the term *responsibility* as an overarching umbrella term of various terms and practices related to corporate responsibility and sustainability.

One way comparing different perspectives on corporate responsibilities is to ask two rather simple, yet hard-to-answer, questions (Bansal and Song, 2017): to whom and for what are corporations responsible? Table 1 presents such a typology by comparing how five archetypal perspectives on corporate responsibility address the given questions. As mentioned, however, the definitional landscape of corporate responsibility is diverse and debated (Montiel and Delgado-Ceballos, 2014), and many of terms are as much *created* as just plainly *comprehended* (Hahn et al., 2014; Matten and Moon, 2008). Therefore, it is better to understand the proposed typology more as a collection of discourses rather than the definitive and undisputed classification of corporate responsibility perspectives.

Perspective on corporate responsibility	**Friedman doctrine** (Jensen, 2002; Friedman, 1970/2007; Levitt, 1958)	**Strategic philanthropy** (Husted et al., 2006; Godfrey, 2005)	**Corporate citizenship** (Matten and Crane, 2005; Logsdon and Wood, 2002)	**Shared value** (Engert et al., 2016; Porter and Kramer, 2011)	**Doughnut economics** (Raworth, 2017)
Responsible to whom?	Shareholders	Shareholders	Stakeholders	Stakeholders	The biosphere
Responsible for what?	Maximizing shareholder value	Maximizing shareholder value, engaging in an optimal amount of responsibility	Acting as a good corporate citizen as a part of the society	Rooting strategy, business models and innovations on responsibility	Fulfilling societal needs while not overcoming the planetary boundaries
Normative premise	Shareholder rights must be respected, everything else is government's business	Shareholder rights must be respected, communities should be given back to if it helps the former	Corporations should actively engage in improving the society they are part of	Shareholders and society must both benefit but there is no dichotomy as best businesses are inherently responsible	Corporations must solve meaningful societal challenges and preserve the conditions for future life (human and non-human)
Dominant theories	Agency	Agency, stakeholder	Stakeholder, institutional, ethical, political	Stakeholder, resource-based view	Ecological, ethical, political
Strong or weak sustainability	Weak	Weak	Weak	Weak	Strong
What is the effect of responsibility (CSP) on returns (CFP)?	Negative	Inverted U-shape (maximum at the optimal level of CSP)	Neutral or positive (but not the main motive of action)	Positive	Positive (but CFP discontinuing to zero below certain levels of CSP)

Table 1: A typology of perspectives on corporate responsibility

The two first questions of the framework asses who the perspectives include as the beneficiaries of corporations, and for what corporations are responsible to them. These are further explained by the normative premises and dominant theories rationalizing the views. Finally, the framework summarizes the perspectives' takes on the debates between strong and weak sustainability (see Chapter 2.3) and the effect of the measurable outcomes of corporate responsibility (*corporate social performance*, CSP) on risk-adjusted returns (*corporate financial performance*, CFP) (see Chapter 2.6).

The debate on the purpose of companies can generally be divided into two broad camps (Bansal and Song, 2017). The first, further analyzed in Chapter 2.2, is centered around the theories of economics and management, and has traditionally concerned the division of labor between businesses and government, and issues like social justice and corporate governance. The second, analyzed in Chapter 2.3, is a more recent approach that draws from the theories of environmental and systems sciences and ecology, and has gained popularity as the severity of our current ecological crisis (IPCC, 2018) has unveiled. Finally, Chapters 2.5 and 2.6 discuss the societal institutionalization of corporate responsibility, namely fiduciary duty, and the natural follow-up question given the former: can returns and responsibility be pursued simultaneously (formally the *CSP-CFP link*)?

2.2 Business-driven perspectives

The first, economics and management-centered, realm consists of a multitude of approaches that can typically be classified based on their shareholder/stakeholder emphasis (Godfrey, 2005), in which the former refers to considering only the legal stockholders of a company while the latter takes a broader group of stakeholders such as customers, employees and other affected groups of people into account.

The oldest and perhaps also best-known of these approaches is the *Friedman doctrine* (Friedman, 1970/2007) of shareholder value maximization, according to which a business should never have any other responsibilities than the profit motive to its shareholders. In this view, advocated also by scholars before and after Friedman (Jensen, 2002; Levitt, 1958), any actions taken beyond this ultimate duty are not only useless but also inefficient and harmful for the financial performance of the company and the general benefit of the society.

Strategic philanthropy (Husted et al., 2006; Godfrey, 2005), on the other hand, argues that while the principle of shareholder value creation must be respected, some amount of philanthropic activities might actually serve this aim better. According to the view (ibid), there is an optimal amount of "extracurricular activities", strategically chosen philanthropy not related to the core business, that can accumulate reputational capital and increase the company's legitimacy - which again can have a positive effect for the core business and for the society, too.

The approach of the *Corporate citizenship* perspective projects the qualities of "good citizens" to corporations by stating that (Logsdon and Wood, 2002, p.158): "*business organizations are not autonomous entities with inalienable rights to independent action; they are members of society, with obligations and constraints as well as privileges*". This "humanization" of corporations acknowledges the increased power of corporations in the Habernasian *postnational constellation* (Scherer and Palazzo, 2007) and demands that corporations must more explicitly bear their responsibilities related to this new role (Matten and Crane, 2005). Logsdon and Wood (2002) also distinguish *global business citizenship* from *corporate citizenship* to differentiate multinational corporations from local and community-centered firms.

Though the trend of CR theories can be seen to move from shareholder-value maximization towards stakeholders as the beneficiaries of corporate optimization, many recent scholars have argued that there might not have to be a dichotomy between the two. Porter and Kramer's (2011) *Shared value* is perhaps the best-known example of this. According to it, many responsible-perceived corporate activities, such as process waste elimination or energy efficiency improvements, do actually stem from economic motives of cost reduction or revenue increase rather than philanthropic "extracurricular work" outside core business activities. Hence, advanced corporate responsibility is not about separately engaging in responsible activities but basing the whole business model on ideas and innovations that are inherently responsible (Engert et al., 2016).

2.3 Ecology and societal welfare-driven perspectives

The other dimension of literature concerning the purpose of businesses approaches the question by taking a systemic view of environmental resources as its starting point (Bansal and Song, 2017). These *planetary boundaries* (Steffen et al., 2015), such as the amounts of extractable natural resources as well as the maximum levels of waste and emissions the environment can withstand, are the fundamental constraints for any human activity on the planet. Breaking these limits posits a large risk that certain natural feedback mechanism may cause ecological collapses and endanger the basic conditions for life in many parts of the world – a process that has already begun and is expected to worsen given the current course of action (McKinsey & Company, 2020; IPCC, 2018).

Strong and weak sustainability are terms often used in this discussion about resource use and economic growth. Rooted in Robert Solow's (1974) theories on the interchangeability of natural and human capital, there is a wide ongoing debate on whether large enough a gain of human utility, e.g. in the form of financial gains or well-being, can offset the overuse of natural resources, resulting in *weak sustainability*, or not, as in *strong sustainability* (Landrum, 2018). However, only strong forms of sustainability take the warnings of environmental scientists (IPCC, 2018) seriously and decouple economic growth from excessive resource overuse (International Resource Panel, 2019), making them the only truly sustainable option for the Earth system (Landrum, 2018).

Another approach on the purpose of corporations is to classify the societal relevance of problems they are trying to solve (Gerard, et al., 2016). In a global perspective, the amount, and to some extent worsening, of the burden of disease, poverty and inequality (UNDP, 2019) could serve as the starting point for such a discussion. Naturally, this provokes also a debate about the division of labor between business and government, which might have become much more blurred a dichotomy as global corporations have stepped in the power vacuum of weakening nation states (Scherer and Palazzo, 2011, 2007).

Doughnut economics (Raworth, 2017) combines these two approaches by setting both an "ecological ceiling" for natural resource use and a "social floor" for the minimum living standard every human should achieve, thus forming a "doughnut" inside which human economic activity is both strongly sustainable and also fulfilling the very basic needs of every human. Though doughnut economics is usually applied to nation states and economic systems, it can also be understood to reflect a new paradigm of the purpose of businesses. Regarding the stakeholder focus, it provides perhaps the broadest possible definition: the considered beneficiaries shouldn't be just the shareholders nor even the usual stakeholder groups but, at least in theory, the whole biosphere including us humans with our basic needs, and the nature with its systemic constraints. Such a definition might help shift the rather myopic focus of current social responsibility benefitting a very small group of primary stakeholders towards increasing long-term societal welfare, and hence guide businesses to solve more relevant problems from the point of view of the global human condition (de Bakker et al., 2020; Gerard, et al., 2016).

2.4 Theories explaining corporate responsibility perspectives

Management literature has made an extensive effort on giving theoretical explanations why companies act in certain ways. In the context of corporate responsibility, an instrumental view is often taken by citing *agency* and *stakeholder* theories and the *resource-based view,* the institutionalized and political context is addressed with *institutional* and *political theories*, and a broader ecological and humanitarian perspective argued in *ethical* and *ecological* theories (Frynas et al., 2016; Garriga and Melé, 2004).

Agency theory approaches CR as a principal-agent problem in which the corporate managers (agents) are entitled to oversee the interests of the shareholders (principals) (Frynas et al., 2016). Proponents of this view typically argue that typical CR activities are shareholder-value-destroying by definition, as shareholder and broad stakeholder interests are often not aligned (Jensen, 2002).

Stakeholder theory (see e.g. Freeman and Harrison, 1999), posits that firms are not operating in a vacuum but are connected to various stakeholders whose interests they also have to take into account. But as Chatterji and Toffel (2010) note, firms' ability to respond to these varying demands depends on both how much the stakeholder interests conflict, as well as how costly it is for the firm to fulfill such demands.

The *resource-based view* (Garriga, 2004) approaches the same argument from within the firm by analyzing how CR-related resources and *dynamic capabilities* become critical competitive advantages for the firm. Despite seeing CR mainly as an instrumental construct to shareholder or stakeholder maximization, these *instrumental theories* do not necessarily mean that responsible corporate behavior would not be good for shareholders but as Jones (1995) notes, can be the very source of financial performance, too.

Institutional theory, on the other hand, emphasizes the institutional factors behind CR, such as the politico-economic system, value base, regulation and dialogue between companies, government and third sector organizations (Campbell, 2007). Hence, it can be especially helpful in understanding cross-national differences of prevailing CR paradigms – for example why corporate responsibility in the US has typically been an explicit part of corporate behavior rather than an implicit feature of the society's underlying institutional factors, as in Europe (Matten and Moon, 2008). *Political theories* extend the institutional view by analyzing corporations' increasing societal power and arguing that this increase in power comes also with an increase in responsibilities (Scherer and Palazzo, 2011; Matten and Crane, 2003).

Ethical theories (see e.g. Freeman, 1984/2010) root their arguments about corporate responsibility in normative ethics proposing that responsibility itself should be a desired goal of CR activities. Additionally, ethical theories broaden the role of corporations taking into account the collective human development and universal human rights (Gerard, et al., 2016).

Ecological theories, on the other hand, argue that typically the other theories concerning corporate responsibility see nature mainly as an inexhaustible source of resources. As Gladwin et al. (2012) states, overcoming the alienation of human business activities from the nature requires a paradigm shift that starts from the sustainability constraints themselves, instead of superimposing instrumentalized versions of them afterwards. The typical narrow framing of businesses and their effects on the planet (Reinecke and Ansari, 2016), as well as the inability to acknowledge the interdependencies and complexity of socio-natural systems (Williams et al., 2017), is a major reason why many CR approaches and hence companies following them are unable to tackle the *wicked problems*[22] of our time (Bansal and Song, 2017).

2.5 Societal institutionalization of corporate responsibility

On the societal level, these views of corporate responsibility are reflected in the institutionalized environment in which the corporations operate. Explicitly this is manifested in the regions' legal framework, namely in the existence and interpretation of fiduciary duty and other regulation binding the corporation. Fiduciary duty, the obligation to oversee the financial interest of the shareholders, is a fundamental building block of practically every corporate law in the world (Richardson, 2009; Carroll, 1991), hence operationalizing the *Friedman doctrine* (Friedman, 1970/2007) on the societal level. A central question in the explicit legal boundaries, and simultaneously a manifestation of the relative influences of the different underlying paradigms, is the occasional contradiction between different laws, e.g. the fiduciary duty and environmental regulation (Richardson, 2009).

Moreover, corporations must also consider the institutionalized socio-cultural aspects – the political and economic systems, culture and ethical value base (Matten and Moon, 2008) – to gain full social legitimacy for their actions (Wood, 1991). Though the influence of these institutionalized factors is substantial, often even legally binding, they are by no means static or immutable. Reflecting the underlying zeitgeist and societal norms (Matten and Moon, 2008), changes in the public opinion do have implications on corporate governance, as e.g. the U.S. activist shareholder movement has shown (Davis and Thompson, 1994).

2.6 The link between corporate social and financial performance

The strong institutional position of fiduciary duty has provoked a substantial branch of literature devoted to understanding how *corporate social performance* (CSP), the measurable outcomes and actions of CR (Wood, 1991), affects *corporate financial*

[22] *A problem that is difficult or impossible to solve because of incomplete, contradictory, and changing requirements that are often difficult to recognize. It refers to an idea or problem that cannot be fixed, where there is no single solution to the problem; and "wicked" denotes resistance to resolution, rather than evil.* https://en.wikipedia.org/wiki/Wicked_problem, Accessed 8.6.2020

performance (CFP). In terms of the five perspectives in Table 1, the theoretical answers to this question differ substantially.

Friedman doctrine (Jensen, 2002; Friedman,1970/2007; Levitt, 1958) posits that CSP is only a minimizable agency cost, i.e. the higher CSP means lower CFP. *Strategic philanthropy* (Husted et al., 2006; Godfrey, 2005) argues that the relationship is curvilinear (inverse U-shaped). This can be explained either by the argument that only companies with high *stakeholder influence capacity* can turn their CSP actions into CFP (Barnett and Salomon, 2012), or with the view that only a moderate *financial logic* orientation of the institutional conditions results to more responsible investing (RI) funds as in that case investing is seen as a suitable means to responsibility but pure financial demands do not yet override it (Yan et al., 2019). For *Corporate citizenship* (Matten and Crane, 2005; Logsdon and Wood, 2002), the CFP relationship is not the main motive for CSP actions that are not seen as instrumental opportunities but deontological duties (Freeman, 1984/2010). *Shared value* (Engert et al., 2016; Porter and Kramer, 2011), on the other hand, states that the two are not mutually incompatible but that good CSP is just a leading indicator for good CFP. Theoretically, this can be explained by *slack resources theory* arguing that excessive financial resources (CFP) improves CSP, by *good management theory* proposing the opposite direction of causation strongly moderated by good management practices as well as by *virtuous cycle theory* arguing that CSP and CFP boost each other in a reciprocal way (Waddock and Graves, 1997). Finally, *Doughnut economics* (Raworth, 2017) states that if the operationalization of CSP really reflects companies' true socio-ecological impacts that are also fully reflected in the price mechanisms and regulation, CSP and CFP are indeed positively related. In a *strongly sustainable* (Landrum, 2018) way, however, the perspective also argues that if the level of CSP is let to decrease below certain levels (e.g. all the *planetary boundaries* (Steffen et al., 2015), are exceeded for a long period of time), CFP cannot be anymore pursued as the Earth system and our societies and economies as parts of it, will collapse.

In addition to theories, there is also a vast body of empirical literature on the matter. Several large meta-analyses (see e.g. Busch and Friede, 2018; and Orlitzky et al., 2003) report a significant and robust bidirectionally positive relationship between CSP and CFP. Moreover, the literature has acknowledged several factors moderating and mediating the CSP-CFP link: the operationalization of the CSP and CFP measures (Wang et al., 2016; Orlitzky et al., 2003), materiality of the given CSP factors for the industry (Khan et al., 2016), firm size (Dixon-Fowler et al., 2013), R&D[23] spending (Mcwilliams and Siegel, 2000), intangible resources (Surroca et al., 2010), how developed the surrounding society

[23] research and development

is (Wang et al., 2016) and the use of accounting-based measures, instead of stock market-based measures, in operationalizing CFP (Orlitzky et al., 2003).

There is still, however, a great amount of debate around the CSP-CFP link. Replications of previous studies, such as Zhao and Murrell's (2016) replication of Waddock and Graves' (1997) highly cited results showing a positive CSP-CFP relationship, have not found support for the previous findings, and at least a part of positive CSP-CFP findings seems to stem from publication bias (Rost and Ehrmann, 2017). As (Orlitzky, 2013) notes, CSP is a highly complex and ambivalent measure that, in its current operationalized form, can be a source of volatility-increasing market noise, instead of providing truly valuable information about the companies or their CSP. And as Korhonen (2003) argues, the traditional way of CSP operationalization is not aligned with *strong sustainability* (Landrum, 2018), questioning the whole relevance of the current CSP-CFP findings as evidence of sustainability's profitability. All in all, the devil of the CSP-CFP link seems to be in the operationalization of its measures.

3 Why are investors interested in corporate responsibility?

3.1 Categories and levels of individual and organizational motives

The philosophical discussion about capitalism, despite its importance, is not the driver and motivator of daily operations of investors. Nevertheless, the overarching perspectives on CR are influential. Mediated by the aforementioned management theories, they are projected onto a list of investors' concrete motives for engaging in CR. The question of what motivates investors to engage in CR activities by operationalizing it can be analyzed from multiple different perspectives. Building on top of the argumentation of Aguilera et al. (2007), at least three distinct categories of motives can be found from the levels of individual and organizational actions. The resulting framework is presented in Table 2.

After discussing the interplay between different levels and categories of motives in this chapter, the projection of all motives to organizational financial motives (under the obligation of fiduciary duty) are discussed and listed in Chapter 3.2 Chapters 3.3 - 3.6, in turn, elaborate each of the four identified categories of organizational motives: investment risk management, investment opportunity seeking, marketing and public image, and recruiting and human resources management (HRM).

Category of CR[24] motives	**Seen at the individual level as**	**Seen at the organizational level as**
Instrumental	Need for control	Shareholder interests (short term)
Relational	Need for belongingness	Stakeholder interests Legitimacy/collective identity (long term)
Moral	Need for meaningful existence	Stewardship interests Higher-order values
Hierarchy among the motives	Upward hierarchical	Downward hierarchical

Table 2: Levels and categories of corporate responsibility motives, modified from Aguilera et al. (2007)

[24] corporate responsibility

The first category, *instrumental motives*, relates to the explicit benefits gained from CR – the direct economic motives, that is – and is often focused on the short term (Aguilera et al., 2007). At the organizational level, these motives are aligned with the *Friedman doctrine* of shareholder capitalism (Jensen, 2002; Friedman,1970/2007; Levitt, 1958). On the other hand, at the individual level these instrumental motives relate to governance and control of people (Aguilera et al., 2007).

The next category, *relational motives*, is characterized by a greater focus on shareholders, linking it with the *Shared value* (Engert et al., 2016; Porter and Kramer, 2011) and *Corporate citizenship* (Matten and Crane, 2005; Logsdon and Wood, 2002) paradigms. Here the organizational-level focus is on the longer term and on more implicit, while still arguably existing, benefits for the business that relate to the stakeholders' needs and the stakeholder legitimacy achieved through this (Aguilera et al., 2007; Wood, 1991). At the individual level, relational CR can be understood as actions aimed at fulfilling the basic human need for the sense of belonging (Aguilera et al., 2007).

The third category, *moral motives*, contains the most abstract and implicit set of motives: the meaningfulness of work at the individual level, and the general image and public legitimacy at the organizational level – even outside the main stakeholder groups, too (Aguilera et al., 2007). This view of responsibility *per se*, for its own sake, can be seen to be connected at least with the *Corporate citizenship* (Matten and Crane, 2005; Logsdon and Wood, 2002) paradigm.

These motive categories, however, are placed in different hierarchies of importance by different types of CR actors. As Aguilera et al. (2007) argues, the individual level values *moral motives* the most, followed by *relational* and *instrumental motives*. Bound by the fiduciary duty, the organizational level, as in its management, has the opposite order starting from the shareholder-driven instrumental motives. This fundamental clash between different groups' interests is one reason why CR provokes such a fierce debate. The theorization discussed here helps understand why investors weigh these motive categories differently depending on employees' and stakeholders' power and importance in their specific context.

Moreover, as Gond et al. (2017) argues in their summary on the microfoundations of CSR at the individual level, individuals do not just have motives for CR but do also evaluate and react to companies' CR activities. The authors also suggest that analyzing the paradoxes and contradictions observed in individuals' evaluations of and reactions to organizations' CR practices may help understand the interplay, relative importance and possible contradictions between different CR motives.

3.2 Explicit and implicit organizational motives

As the main interest of this study is on institutional investment organizations, the motives are analyzed in more detail from their point of view. Adhering to the argumentation of Aguilera et al. (2007), investors are intrinsically focused on the instrumental motives of CR – its ability to improve their investment performance. This does not still mean that investors would not consider relational or moral motive categories or the individual and extra-organizational (stakeholder) levels. Quite contrary, the moral and relational motives of e.g. individual employees are projected onto investment firms' instrumental motive of recruiting and employee motivation. Similarly, the motives of the stakeholders become organization-level instrumental motives of understanding customer needs or the general development of the market environment that is essential for investment risk management and opportunity seeking.

This logic follows the argumentation of Schaltegger and Burritt (2018) and Busch et al. (2016), who show how different categories of ethical CR motives are projected onto different types of instrumental organizational-level CR activities. Schaltegger and Burritt (2018), for example, distinguish superficial reputation focus from collaborative stakeholder engagement and responsibility-driven business model innovation, and project these motives to different types of instrumental organizational-level CR activities ranging from risk and reputation management to employee motivation and opportunity seeking, respectively. Busch et al. (2016), on the other hand, argue how differences like the type, client base and underlying ethical position of an investor affect the implementation of the motives into practices (see Chapter 4.1.1 for a more elaborate discussion).

Applying this framework of investors' relationship to CR, their motives can be classified to explicit financial ones that relate to investors' own instrumental motives, and to implicit financial motives that are instrumentalized projections of all other types of motives, i.e. investors' relational and moral motives as well as all types of motives of the employees and stakeholders. The resulting list of motives is presented in Table 3.

Level	Theme	Motive	Rationale
Explicit: investment performance	**Investment risk management**	**Short-term: ensuring access to finance and lowering cost of capital**	CSP enhances stakeholder management (Cheng et al., 2014) CSP increases transparency (Dhaliwal et al., 2012)
		Long-term: managing existential business risks	Responsible firms are more resilient (Shiu and Yang, 2017; Ortiz-de-Mandojana and Bansal, 2016) CSP helps maintain the trust of markets (Lins et al., 2017)
	Investment opportunity seeking	**Seeking financial outperformance from responsibility**	CSP enhances CFP (Busch and Friede, 2018; Orlitzky et al., 2003) High CSP is a signal of good management (Waddock and Graves, 1997) Responsibility-conscious institutional conditions enhance CSP-CFP causation (Yan et al., 2019)
Implicit: extra- and intra-organizational factors	**Marketing and public image**	**Marketing investment products to existing and potential new customers**	Clients demand responsible funds (Eccles and Klimenko, 2019) CSP does not enhance CFP if customer awareness is low (Servaes and Tamayo, 2013; He and Li, 2011)
		Improving general public image	Maintaining reputation requires investments in CSP (Tetrault Sirsly et al., 2019) Strategic greenwashing can offset poor CSP (Martínez-Ferrero et al., 2016; Lyon and Montgomery, 2015; Du and Vieira, 2012; Kotchen and Moon, 2012)
		Complying with agreements such as PRI	3rd party verification gives a legitimizing signal (Majoch et al., 2017)
	Recruiting and human resources management	**Recruiting new or motivating existing employees**	Employees look for meaningful workplaces (Valentine & Fleischman, 2008; Turban and Greening, 1997) Meaningfulness requires organizational identification (de Roeck et al., 2016; Kim et al., 2010)

Table 3: Investors' motives for corporate responsibility

3.3 Investment risk management

To many professional investors, risk management is the main reason of investing responsibly (Schaltegger and Wagner, 2006). This is rather natural, as investing is by definition about the *risk-adjusted* returns of different assets. There are several reasons and underlying mechanisms for this. First, more responsible companies have better access to finance (Cheng et al., 2014; Dhaliwal et al., 2012) because their enhanced stakeholder engagement lowers the agency costs, and increased transparency decreases the price premium investors want due to information asymmetry. The latter mechanism, decreasing uncertainty by disclosing non-financial (responsibility) information about the company, is especially important in regions with a high stakeholder orientation, i.e. where the requirement for stakeholder legitimacy is exceptionally high (Dhaliwal et al., 2012).

Second, responsibility is often a good proxy for the resilience of a corporation. This long-term view on risk management has been demonstrated to help responsible companies maintain the trust of the markets even in situations like the 2008-2009 financial crisis (Lins et al., 2017). Responsibility's signal of long-term resilience might even be the main mechanism in achieving lower cost of capital, as Ortiz-de-Mandojana and Bansal (2016) argue by showing that responsibility is associated with better stability and survival of businesses even though it does not boost short-term profits. Shiu and Yang (2017) similarly argue that long-term involvement in CSR has insurance-like effects when the firm faces negative events, though they also note that this "insurance" might only be a disposable one as the protection seems to vanish if multiple negative events happen in a short period of time.

3.4 Investment opportunity seeking

However, as previously noted, investing is still about risk-adjusted *returns*. Several broad meta-analyses (Busch and Friede, 2018; Orlitzky et al., 2003) provide evidence about the CSP-CFP link, i.e. that being responsible indeed enhances financial performance. Though, the return-side potential of responsibility is also widely debated, mainly due to issues related to the operationalization of the measures (Orlitzky, 2013; Korhonen, 2003). The institutional context, in this case the interpretation of fiduciary duty in the given region, can also moderate the CSP-CFP effect in a self-fulfilling way (Yan et al., 2019). The prevalent theoretical reasoning behind the outperformance of responsible companies states that it is specifically good management (Waddock and Graves, 1997) that helps companies be more long-term-oriented and transparent, and have engage better with their stakeholders (Eccles et al., 2014).

3.5 Marketing and public image

An obvious reason for investors to be interested in responsible investing is the recent surge in demand of responsible funds and other investment products (Eccles and Klimenko, 2019). As Servaes and Tamayo (2013) show, marketing and branding are of paramount importance in the context of CR: customer awareness moderates CSP's effect on firm value such that well-known firms exhibit positive CSP-CFP causation whereas low customer awareness makes CSP have an insignificant or even a negative effect on CFP. Similarly, He and Li (2011) show that in the context of perceived service performance, CSP is mediated by brand identification and moderated by the actual quality of the service. Therefore, in a self-fulfilling way, marketing of a firm's CSP is crucial to be able to turn the overall CSP into CFP.

Corporate reputation, according to Barnett et al. (2006) is a combination of simultaneous stakeholder awareness and assessment; the former referring to only acknowledging and the latter to also evaluating a given company. Though, as Tetrault Sirsly et al. (2019) note, reputation is a dynamic asset by nature, meaning that corporations must actively invest in it to just sustain their public image. The authors also show how increases in actual CSP, measured by third party responsibility evaluators, lead to increases in reputation, measured as the public opinion of a firm's reputation. Conversely, as Kölbel et al. (2017) state, bad reputation, here in the form of negative media coverage, may lead to financial losses.

CR activities can also be used to strategically mislead stakeholders' reputation assessment. As Kotchen and Moon (2012) argue, especially irresponsible companies have incentives to engage in CR. Du and Vieira (2012) has found the same phenomenon in large oil companies' context. Moreover, CR-driven reputation can also be used to offset reputation-decreasing activities elsewhere: governance-problems (Kotchen and Moon, 2012) as well as negatively perceived earnings management (Martínez-Ferrero et al., 2016) can be reputationally offset by CR activities not related to the actual issues.

Additionally, reputation-focused activities can also relate to compliance with agreements and certifications – a case in point in investors' context is the Principles of Responsible Investment, or PRI[25]. Here, investors' rationale is to signal legitimacy by utilizing the reputational capital of a well-known instance (Majoch et al., 2017).

[25] https://www.unpri.org/pri/about-the-pri, Accessed 8.6.2020

3.6 Recruiting and human resources management

Even though greenwashing[26]-like CSR-like activities (Lyon and Montgomery, 2015) may contradict with *moral motives* of CSR (Aguilera et al., 2007), investors are more interested in the *instrumental motives* related to direct financial gains. This can, however, cause problems especially with employees. On one hand employees have the opposite importance hierachy of motives emphasizing precisely the *moral motives* most, and on the other hand, they also tend to evaluate their workplaces more on the perception of responsibility (e.g. the sense of fairness) than on the actual CSP (el Akremi et al., 2018) forcing investors to make compromises. Riedl and Smeets (2017) report this kind of alignment with *non-instrumental motives* among Dutch socially responsible investors.

There is also indication that high CSP attracts prospective employees (Turban and Greening, 1997), and mediates corporate ethics programs' positive effect on job satisfaction (Valentine and Fleischman, 2008). An important preceding condition for these to happen is the level of organizational identification employees feel, which, in turn, is mediated by employees' perceptions of external prestige and organizational pride (de Roeck et al., 2016). Additionally, this mediating effect is enhanced when employees can actually participate to, not just associate with, the CR activities of their employee (Kim et al., 2010).

[26] "*To make people believe that your company is doing more to protect the environment than it really is.*" https://dictionary.cambridge.org/dictionary/english/greenwash, Accessed 8.6.2020

4 How do investors operationalize corporate responsibility?

4.1 Operationalization of corporate responsibility to responsible investing practices

4.1.1 Responsible investing strategies and practices

The list of strategies to invest responsibly, i.e. the key terms and practices of responsible investing, can be divided into four categorial buckets (see Table 4): integrating environmental, social and corporate governance-related responsibility factors into all investment decisions (*ESG integration*); making investment and divestment decisions based on certain rules, such as international norms, ESG score or industry (*negative and positive screening*); deliberately investing in irresponsible firms to be able to help or force them to be more responsible (*engagement*); and seek investment opportunities that exhibit significant and measurable societal or environmental impacts while still yielding profit (*impact investing*) (Eccles and Klimenko, 2019; Amel-Zadeh and Serafeim, 2018; Eurosif 2018; Busch et al., 2016).

The practices are discussed in more detail in Chapters 4.1.2 - 4.1.5 Additionally, the operationalization of responsibility to an organizational function, and the ambiguous and socially constructed nature of responsible investing are discussed in Chapters 4.1.6 and 4.1.7, respectively. What is more, Chapter 4.2 analyzes the measurement of responsible investing by discussing how the measures are co-created by investors and 3rd party responsibility raters (Chapter 4.2.1), what are the leading responsibility measures according to the interviewees (Chapter 4.2.2), on which areas they focus and with what kind of methodologies (Chapter 4.2.3), what issue categories and data sources they have (Chapter 4.2.4) and how good compatibility and coverage the results have (Chapter 4.2.5).

Following the argumentation of Busch et al. (2016), the underlying motives of different types of investors are reflected in the set of strategies they choose to use. *Financial investors* seek improved risk-adjusted returns from responsible investments, often in the form of *ESG integration*. *Deontological investors* are strongly values-driven and even idealistic in their actions, and often use *negative (exclusionary) screening* methods as well as *impact investing*. *Consequential investors*, while also seeking to fulfill non-financial targets, are willing to take active ownership in these irresponsible companies, *engaging* with them. Finally, *expressive investors* are huge universal owners whose portfolios are tied to the whole global economy meaning that whatever means they use, they are obliged to take a global, holistic and long-term view. As argued before, the current dominating interpretation of fiduciary duty (Carroll, 1991) forces practically all investors to be *financial* ones hence making the other motives mere implicit means of achieving this ultimate goal.

Investment strategy	Explanation	References
ESG integration	Integrate environmental, social and governance issues to all investment practices.	Amel-Zadeh and Serafeim (2018); Busch et al. (2016); Milne and Gray (2013)
Screening	Exclude (negative screening) or include (positive screening/thematic investing/best-in-class investing) certain companies or industries based on product-related, norm-based or responsibility ratings assessments.	Eccles and Klimenko (2019); Amel-Zadeh and Serafeim (2018); Eurosif (2018); Berry and Junkus (2013)
Engagement and activism	Use means of active ownership (AGM voting and informal direct discussions) or indirect means (media campaigns, lawsuits) to steer companies in a desired direction.	Amel-Zadeh and Serafeim (2018); Ayling and Gunningham (2017); Busch et al. (2016); Eesley et al. (2016); Gollier and Pouget (2014); Ansar et al. (2013)
Impact investing	Pursue measurable and additional societal and/or environmental impacts alongside returns.	Höchstädter and Scheck (2015); Jackson (2013); Harji and Jackson (2012); Bugg-Levine and Emerson (2011)

Table 4: The most important responsible investing strategies

4.1.2 ESG integration

The first category of the listed investment strategies, *ESG integration*, refers to integrating environmental, social and governance issues into the whole investment process. Here the goal is to ensure that responsibility is an integral part of all investments instead of applying it to just some responsibly-themed products (Amel-Zadeh and Serafeim, 2018; Busch et al., 2016). This approach, however, is sometimes criticized of superimposing marketing and communications-oriented layers of responsibility reporting on top of the existing processes without really changing the underlying logic based on which investments are made (Milne and Gray, 2013).

4.1.3 Screening

The second category, *screening*, can be divided into different subcategories based on two different aspects: the screening can be either positive (*inclusionary*) or negative (*exclusionary*), and it can consider multiple or single dimensions of responsibility (Eccles and Klimenko, 2019; Amel-Zadeh and Serafeim, 2018; Eurosif 2018). Negative screening, perhaps the best-known and most common of the screening methods (Eurosif 2018), means that investors either do not invest or divest based on exclusionary rules. Here the used screening filters typically consider a single responsibility dimensions, such as in *ethical screening* that excludes certain industries or in *norm-based screening* that excludes companies that violate global norms (ibid). Especially in recent years, however, many investors have begun to shift from exclusions to seeking firms that exhibit positive responsibility characteristics (Berry and Junkus, 2013). Typically, as the authors (ibid) continue, this is conducted either by optimizing a single dimension of responsibility, as in *thematic investing*, or by taking a more holistic approach to responsibility, as in *best-in-class (ESG) investing*.

4.1.4 Engagement and activist investing

The third type of investment strategies, *engagement*, also has a moral imperative alongside the profit motive, but instead of taking a strict *deontological* view, it allows investors to act c*onsequentially,* i.e. to use methods of active ownership to make irresponsible firms more responsible (Busch et al., 2016). Gollier and Pouget (2014) present a theoretical model how such active investors can use engagement in a private equity-fashion by buying irresponsible firms at a low cost and selling them away at a premium, but the authors also note how such strategies require resources, tolerance for temporary brand damage and a long time horizon from the investor. According to Amel-Zadeh and Serafeim's (2018) indicative evidence, this view has gained more support in Europe than in the US.

Though the simplest and most explicit form of engagement is to use one's voting power in the firm's annual general meetings, other means related to *activist investing* exist, too. For example, investors (or any other economic agents, for that matter) can engage in informal private discussions or public media campaigns to affect the target firm – or even file lawsuits in the extreme case (Busch et al., 2016). Empirically, activist investors such as wealthy religious entities, have been found to utilize proxy voting (a method of remote voting) and lawsuits more than boycott and media campaigns that are favored by e.g. activist non-governmental organizations (NGOs) (Eesley et al., 2016).

There is also considerable amount of debate on the efficiencies of the *deontological* and *consequential*, or the *divestment* and *engagement*, investment practices. Several analyses on the divestment campaigns of fossil fuels conclude that even though the direct effects of divestments on target firm operations (namely access to finance) are limited, especially if the investors are relatively small and the asset is liquid, the symbolic effects, i.e. stigmatization, redefinition of norms and possible political consequences of divesting, can have a long-term negative effect on the target firm (Ayling and Gunningham, 2017; Ansar et al., 2013). Similarly, engagement is sometimes also criticized as an excuse to keep irresponsible assets in one's portfolio, as small individual investors are unlikely to have any real power to affect the firms (Ayling and Gunningham, 2017).

4.1.5 Impact investing

Impact investing has gained a lot of attention recently, but the definition and use of the term have caused considerable amount of confusion (Höchstädter and Scheck, 2015). Though most scholars and investors share the common view that impact investing is about having a double goal of financial returns as well as social and/or environmental impacts (Bugg-Levine and Emerson, 2011), the details of these dual mission investments are debated in many ways. First, many scholars and investors consider that the only true form of impact investing are *social impact bonds*, or SIBs (Jackson, 2013). As Jackson explains, SIBs are financial contracts whose outcomes are directly tied to the measured positive improvement in the social or environmental issue being tackled, thus directly linking the returns with the impacts. Second, impact investing is sometimes confused or used interchangeably with the other responsible investing strategies (Harji and Jackson, 2012). Still, impact investments can be distinguished as ones that go beyond the traditional responsible investing strategies by seeking measurable and additional social and environmental impacts, and often focus on direct equity-based investments in early-stage companies (Höchstädter and Scheck, 2015; Bugg-Levine and Emerson, 2011).

4.1.6 Processes, communications and marketing by responsible investors

Though the main focus here is on investment strategies, corporate (ir)responsibility is also reflected in the processes of the investment organization. Maas et al. (2016) categorizes these processes to ones driven by an urge for transparency and to ones related to performance improvements, where the former relates to activities centered around reporting and the latter to measurement and management of responsibility to yield better (in this context investment) performance. Wood (1991) discusses the same topic by stating that responsible firms have distinct processes for assessing and adapting to environmental conditions (here referring to the market environment in general), for managing key stakeholders and for responding to pressing social issues e.g. through philanthropic contributions. Eccles et al. (2014) supports this process view by showing that "high sustainability" firms have more developed processes for stakeholder management and non-financial disclosures, are more long-term-oriented and have aligned their executive compensation better with sustainability targets – though the authors emphasize that it is unclear whether these characteristics are the effect or the cause of responsibility.

In addition to internal processes of investment companies, responsibility can also be operationalized externally, i.e. in the form of their marketing and communications efforts to customers and stakeholders that have recently become substantially interested in responsibility matters (Eccles and Klimenko, 2019). The marketing efforts of the investors, were they then superficial reporting or thorough performance improvements (Maas et al., 2016), are fundamentally aimed at gaining legitimacy in the eyes of the key stakeholders (Du and Vieira, 2012; Wood, 1991). And as Kotchen and Moon (2012) and Shabana (2017) show, more irresponsible firms, here investors, have greater incentives to appear as responsible ones, sometimes even falling to the realm of greenwashing (Lyon and Montgomery, 2015).

4.1.7 Ambiguity and social construction of key terminology and practices

Though different practices, process and investment strategies do have somewhat widely accepted definitions, as described above, these definitions are not standardized, objectively definable or static over time, but time and context-related social constructs (Matten and Moon, 2008). As an example, *responsibility*, which is often used as a high-level umbrella term referring to various different responsibility-related practices (Wood, 1991), is often used synonymously with *sustainability*, though these two concepts have emerged from and evolved in distinct scholarly circles. As Bansal and Song (2017) explain, *responsibility*, is rooted in normative ethics and the business-society interplay, while *sustainability*, stems from systems theory and is focused on the business-environment relation. As they authors (ibid) continue, they were bundled together in the management literature during the 2000s but do still exist independently and with distinct connotations in the normative corporate responsibility and systems theoretical environmental literatures. While different terms are often used to mean the same thing, as in the case of management literature's definition of responsibility, same terms are sometimes also used to mean different things. A case in point is the *strong* versus *weak sustainability* debate, in which scholars argue whether the term *sustainable* means that natural and human capital are interchangeable or not (Landrum, 2018).

In addition to confusions about the definitions and meanings of different terms, the social constructedness of the terms makes them shape the underlying view on corporate responsibility, that the terms eventually try to operationalize, in a self-fulfilling manner (Matten and Moon, 2008). The social constructedness and self-referencing nature – that the terms used to describe certain views also affect these views – of responsible investing terminology leads also to different, often mutually exclusive *cognitive frames* through which investors approach the topic of corporate responsibility (Himick and Audousset, 2014). This framing is of paramount importance when investors face ill-defined *wicked problems* (Etzion, 2018) like the fundamental questions of responsible investing. One reason why so many investors are stuck with seemingly irresponsible practices while trying to pursue responsibility is their inability to transcend off from the traditional *business case frame* and use a *paradoxical frame* that accepts the wickedness and complexity of responsibility issues (Hahn et al., 2014), and adapt the scale and granularity of their organizational attention to match these wicked issues (Bansal et al., 2018).

4.2 Operationalization of corporate responsibility to measures of responsible investing

4.2.1 Cocreation of corporate responsibility measures by investors and 3rd party responsibility rating agencies

When it comes to responsible investing, the saying "you get what you measure" is an especially suitable one. In the end, the lowest and most practical level of operationalizing responsibility, measures of responsible investing, ultimately define how the higher-level strategies are implemented. This chapter analyzes the construction of such responsible investing measures by discussing how the measures are cocreated together by investors and 3rd party responsibility rating agencies. Chapter 4.2.2 continues this by compiling a list of the leading measures, while the following chapters analyze the main focus areas and methodologies (Chapter 4.2.3), considered issues and data sources (Chapter 4.2.4), and output comparability and coverage (Chapter 4.2.5) of the measures.

As there is no undisputed universal definition for corporate responsibility (Berry and Junkus, 2013), it is understandable that there is no standardized method to measure it, either (Montiel and Delgado-Ceballos, 2014). As Antolín-López et al. (2016) state, there are four main groups who have incentives to be able to numerically measures responsibility of investments: investors, academics, multilateral (supranational) organizations and NGOs. Of these, investors are the most interesting ones for this study for three reasons.

First, the scope of this study explicitly concentrates on institutional investors (see Chapter 1.2). Second, as Antolín-López et al. (2016) continue, the most sophisticated and widely used responsibility measures were mainly created for investors and only later adopted by other stakeholder groups, too. A case in point is the KLD (Kinder, Lydenberg and Domini) ESG measure, currently omitted to MSCI's ESG ratings[27], that was initially created for investors but became also the main academic operationalization of responsibility after some parts of it were published for academic use (Avetisyan and Hockerts, 2017; Antolín-López et al., 2016; Montiel and Delgado-Ceballos, 2014). Third, as seen in a long but by no means exhaustive list of different responsibility (in their terminology sustainability) measures by Singh et al. (2009), many measures do not even attempt to aggregate different aspects of corporate responsibility but concentrate on a single dimension, mostly on the environmental one. Practically all measures for investors, on the other hand, do at least in principle attempt to aggregate multiple dimensions into a single composite score, making them more interesting for the purpose of this study that emphasizes the multidimensionality of responsibility.

It is also important to note who actually create these investor-focused measures and why. While it is naturally possible, both for investors and academics, to construct the measures themselves (Montiel and Delgado-Ceballos, 2014), the complexity and workload of constructing them combined with investors' increasing needs for responsibility data has in reality created a whole industry of responsibility raters (Avetisyan and Hockerts, 2017). Moreover, the consolidation of the responsibility rating industry in recent years has created an interdependency between investors and a few large rating agencies - analogously to credit rating (Escrig-Olmedo et al., 2019). This has resulted in a situation in which (Avetisyan and Hockerts, 2017, p. 318): "*whether their measurements are accurate or not, ESG rating agencies undoubtedly influence the behavior of firms and investors.*".

The emergence of this interdependent dynamic has two important implications. First, the rating agencies have incentives to sell their responsibility information about firms who have interest to appear as responsible as possible to investors, who, in turn, are dependent on

[27] https://www.msci.com/msci-kld-400-social-index, Accessed 8.6.2020

this data. As Orlitzky (2013) states, the main result of these multiple vested interests may not be sophisticated responsibility information but market noise.

Second, as Eccles & Klimenko (2019) note, investors' needs for responsibility measures might differ from the needs of other stakeholder groups – as discussed in Chapter 3, investors are ultimately interested in responsibility only as long as it yields financially material outcomes. As most effort in measuring responsibility is put in investors' use cases and other stakeholders are left to use these commercial measures, too, this financially motivated dynamic itself shapes what aspects of responsibility are being quantitatively operationalized. As Bansal and Song (2017) state, this may lead to overlooking aspects like the ecological systemic sustainability that is inarguably important but simply too complex to be attributed to individual companies in way that connects it to short-term financial materiality.

4.2.2 A list of leading corporate responsibility measures for investors

As discussed in the previous chapter, investors' main way to operationalize responsibility to quantitate measures is to use 3rd party measures from private responsibility rating agencies. This chapter compiles a list 17 of leading measures of such kind by using both first-hand interview data and second-hand sources including academic papers (Escrig-Olmedo et al., 2019; Douglas et al., 2017) and non-academic reports (SustainAbility, 2019; SICM, 2016, Harvard, 2017; Novethic, 2014). This type of triangulation (Olsen, 2004) is a useful method in instances like these where the topic is rather novel, and the amount of in-depth academic reviews is limited. All the measures either mentioned during the interviews or mentioned at least in one of the used secondary sources were selected on the list. A full list of the sources and their mentions about each measure can be seen in Table 15 of Appendix A. Moreover, in analyzing the characteristics of the leading measures, also the openly available methodology reports on the 3rd party raters' websites were used (see Table 16 of Appendix A).

The resulting characterization is summarized in several tables: the competitive positions (based on which the measures are shorted), main focus areas and brief outlines of the methodologies are shown in Table 5; a list of considered issues and data sources are summarized in Table 17 of Appendix B; and the use of analyzed firms' own disclosures as data sources, comparability of the output and coverage of the measures are shown in Table 6.

Measure provider	Competitive position	Focus	Methodology
MSCI ESG	Market leader	General ESG	ESG risk management given issue exposure
Sustainalytics	Top 5	General ESG	ESG risk management given issue exposure
ISS Oekom	Top 5	General ESG	ESG risk management given issue exposure
Robeco SAM	Top 5	General ESG	ESG risk management given issue exposure
Bloomberg ESG	Top 5	General ESG	Amount of ESG disclosure, aggregation of other ESG measures
Carbon disclosure project	Mid-sized	Environmental impact and management	Environmental impact disclosure and management
Refinitiv ESG	Mid-sized	General ESG	ESG risk management given issue exposure
FTSE Russell	Mid-sized	General ESG	ESG risk management given issue exposure
Vigeo Eiris	Mid-sized	General ESG	ESG risk management given issue exposure
ECP ESG	Mid-sized	General ESG	ESG risk management given issue exposure
Reprisk	Mid-sized	ESG reputation and image	Perceived ESG performance and risk in media
Covalence	Small	ESG reputation and image	Perceived ESG performance and risk in media and company disclosures
Maplecroft	Small	Geographical ESG and political risk	Geographical ESG and political risk exposure and management
Trucost	Small	Environmental impact and management	Environmental impact disclosure and management
The Upright Project	Emerging	Net impact	Product mix net impact based on scientific articles
Influence Map	Emerging	Environmental political influence	Environmental political influence based on media, government and company disclosures
Impact-Cubed	Emerging	Portfolio ESG and product impact	Portfolio ESG and product net impact compared to an index benchmark score

Sources: Escrig-Olmedo et al. (2019), Douglas et al. (2017), Novethic, (2014), SustainAbility (2019), SICM (2016), Harvard (2017), conducted interviews and raters' publicly available methodology reports. See Appendix A for further reference.

Table 5: Competitive positions, focus areas and methodologies of leading 3rd party responsibility measures

4.2.3 Focus areas and methodologies of the leading measures

As seen in Table 5, practically all the most popular measures focus on so called general ESG measurement. This means that they aggregate environmental, social and governance-related issues to a compound responsibility measure (Escrig-Olmedo et al., 2019). Moreover, most of them aim at assessing how well ESG related risks (and to some extent opportunities, too) are being managed relative to the severity of risk exposure in the given issue category (see Table 16 of Appendix A for references). For example, this methodological choice means that their environmental submeasures do not even attempt to model which companies produce the largest environmental impacts but instead ask, which companies best manage the environmental risks related to issues that are likely to cause financially material outcomes for the companies. In terms of underlying views on responsible investing, these types of measures are closest to the *agency* (Frynas et al., 2016) and *stakeholder* (Freeman and Harrison, 1999) theories.

Exceptions to this style among the top 10 measures are Bloomberg ESG, which mainly aggregates other measures, and Carbon Disclosure Project, which concentrates solely on the environmental dimension. It is also noteworthy to mention that especially the largest providers, such as MSCI, do also provide other types of analyses like carbon footprint assessments and engagement services in addition to the ESG measures discusses here (Douglas et al., 2017; Table 16 of Appendix A).

Among smaller players, the range of methodologies varies a lot more. These specialized providers assess responsibility for instance through perceived public image and reputation (e.g. Reprisk), geographical ESG and political risk (Maplecroft), aggregated impact of companies' products and services (The Upright Project) and environmental political influence of companies (Influence Map). These reflect a wider variety of theoretical perspectives on corporate responsibility, such as *Strategic philanthropy* (Husted et al., 2006; Godfrey, 2005), politically-oriented *Corporate citizenship* (Matten and Crane, 2005; Logsdon and Wood, 2002) and systemic sustainability-driven *Doughnut economics* (Raworth, 2017).

The main methodological critique against the leading measures is twofold. First, the measures are accused of lacking reliability and validity. According to the critics, the measures lack intellectual (Busch, 2016) and academic (Escrig-Olmedo et al., 2019) rigor, contain measurement errors (Berg et al., 2020; Chatterji et al., 2016) and hide their ambiguous conceptualization of responsibility (Orlitzky, 2013) behind numerical measures that mainly promote an illusion of objectivity (Entine, 2003). Second, the critics state that due to low reliability and validity, the measures are neither material. This concerns financial materiality (Doyle, 2018; Khan and Serafeim, 2016; Orlitzky, 2013; see also Chapter 2.6) as well as materiality in terms of strong systemic sustainability (Escrig-Olmedo et al., 2019; Bansal and Song, 2017; Busch, 2016; Chatterji et al., 2016; Korhonen 2003).

4.2.4 Considered issues and data sources of the leading measures

One level of abstraction lower from the high-level methodologies are the actual issue categories and data sources used by the measures. Table 17 of Appendix B lists these based on the publicly available methodology reports (see Table 16 of Appendix A) of the rating agencies. Moreover, the first column in Table 6 indicates whether the measures involve the analyzed firm in the assessment process by using their sustainability reports and other disclosures as data sources and/or letting the analyzed firm comment and modify the assessments.

In terms of the included issue categories, it is hard to draw any decisive conclusion for two reasons. First, the measures nor their contents are not standardized (Doyle, 2018), meaning that the providers can name their issue categories in arbitrarily different ways while referring to the same underlying phenomenon, and vice versa. Second, the names of the issue categories explain little without the knowledge about how these issues are being assessed. For example, climate change is mentioned by almost all measures as an issue category but its assessment is based on a variety of different interpretations, such as the existence of climate change-related internal development programs (most general ESG measures), media sentiment related to the company's climate actions (Reprisk), actual emissions (Carbon Disclosure Project) or the scientific consensus on the climate-friendliness of the company's products and services (The Upright Project).

As Doyle (2018) notes, the lack of transparency to the actual contents of the measures is a large caveat creating misconceptions and making it hard for investors to understand what the measures actually measure. In addition, many authors criticize the measures of neglecting parts of the whole value chain, such as scope 3 of emissions[28] (Escrig-Olmedo et al., 2019), making it impossible to track e.g. material and energy flows essential to strong sustainability-driven analyses (Korhonen, 2003).

[28] https://compareyourfootprint.com/difference-scope-1-2-3-emissions/, Accessed 28.5.2020

Measure provider	Analyzed firm involved?	Output comparability	Coverage
MSCI ESG	yes	Among industry peers	6,800 companies; over 590,000 equity and fixed income securities
Sustainalytics	yes	Across industries	11,000 companies
ISS Oekom	yes	Across industries	10,000 companies (includes country ratings)
Robeco SAM	yes	Among industry peers	3,500 companies
Bloomberg ESG	yes	Across industries	13,000 companies
Carbon disclosure project	no (other than CDP questionnaire answers)	Across industries	8,400 companies
Refinitiv ESG	yes	Among industry peers	7,000 companies
FTSE Russell	yes (can challenge)	Among industry peers	4,100 companies, 7,200 securities
Vigeo Eiris	yes	Among industry peers	4,500 issuers
ECP ESG	yes	Among industry peers	4,000 issuers
Reprisk	no (other than influencing 3rd party media sources)	Across industries	140,000 companies
Covalence	yes	Across industries	6,000 companies
Maplecroft	yes	Among industry peers	198 countries
Trucost	yes	Across industries	15,000 companies
The Upright Project	no (other than publicly disclosed product and service mix)	Across industries	43,000 companies
Influence Map	yes	Across industries	50,000 listed funds
Impact-Cubed	indecisive (not found from public materials)	Across industries	14,000 issuers

Sources: Escrig-Olmedo et al. (2019), Douglas et al. (2017), Novethic, (2014), SustainAbility (2019), SICM (2016), Harvard (2017), conducted interviews, raters' publicly available methodology reports. See Appendix A for further reference.

Table 6: Involvement of analyzed firms, comparability of output and coverage of leading 3rd party responsibility measures

The use of data sources, on the other hands, is more homogenous at least at the categorical level. Though, the same transparency problem as with issue categories (Doyle, 2018) makes it also hard to draw any decisive conclusions. Nevertheless, the most popular data sources seem to be companies' own disclosures, media sources and economic, societal and environmental macro data sets created by governments, NGOs and academic institutions. Moreover, especially the most popular measures also use the outputs of other measures as one source of data (Escrig-Olmedo et al., 2019). The two most important critiques on the data sources relate to their backward-lookingness (Doyle, 2018; Chatterji et al., 2009; Entine, 2003) and the lack of trustworthiness and possible moral hazard resulting from the use of companies' own disclosures as data sources (Shabana, 2017; Orlitzky, 2013; Kotchen and Moon, 2012).

4.2.5 Output comparability and coverage of the leading measures

Regarding the outputs of the measures, on thing above all sparks the most debate: their comparability among different firms (see Table 6 for a comparison). On one hand, it can be argued that different industries have such large differences that forcing the same analysis methodology through all of them and trying to compare the measures over the whole investment universe deteriorates the accuracy of the analysis (Doyle, 2018). The industry-specific issue categories seen in Table 17 of Appendix B also illustrate this point.

On the other hand, as e.g. Amel-Zadeh and Serafeim (2018) argue, when making investment decisions one by definition has to compare all the different companies in one's investment decision space, and measures not suitable for this are of little help in investors' main use cases. Moreover, as Doyle (2018) continues, biases related to company size (larger companies get better ratings) and region (regulatory and other societal context is poorly accounted in the measures) distort the measures' comparability.

In addition, the low validity critique discussed in Chapter 4.2.3 is often justified with claims about lack of correlation between different measures (Berg et al., 2020; Chatterji et al., 2016; Orlitzky, 2013). However, some authors also oppose this by reporting signs of validity (Semenova and Hassel, 2015; Sharfman, 1996), and arguing that the divergence is as normal and understandable as with e.g. equity research and that imperfect measures might still be more useful than no measures at all (Waddock, 2003).

5 Methodology

5.1 Research approach and design

The objective of this study is to understand how and why Nordic institutional investors operationalize corporate responsibility. Thought there is considerable amount of research on corporate responsibility, also in the context of institutional investors, few studies have sought to analyze the underlying factors behind institutional investors' responsibility comprehensions and practices (Bansal et al., 2018; Himick and Audousset, 2014; Hahn et al., 2014). Second, this study draws from multiple research areas related to (somewhat distinct fields) of corporate responsibility, sustainability and strategic management (Bansal and Song, 2017).

Given the novel and multidisciplinary research setting aimed at understanding the underlying reasons, associations and effectiveness of responsible investing, an *inductive qualitative approach* is chosen (Ritchie and Lewis, 2013). The first attribute, *inductive*, means that a new theory is formulated based on empirical findings (Eisenhardt, 1989). Contrary to deductive studies that test existing hypotheses with empirical data, inductive research has (Eisenhardt and Graebner, 2007, p. 25): *"[an] emphasis on developing constructs, measures, and testable theoretical propositions"*, that deductive methods can then test in the future. The research question of the study is not particularly tightly scoped, meaning that it is hard to point very exactly the specific theoretical gap it addresses. Nevertheless, as Eisenhardt and Graebner (2007) continue, inductive methods are also well-suited for these types of broadly-scoped and phenomenon-driven studies. Second, as Flick (2014) argues, the *qualitative* method is especially suitable for analyzing socially constructed phenomena – which corporate responsibility inarguably is (Himick and Audousset, 2014; Matten and Moon, 2008) - for which the thoughts and terminology of the actors strongly affect their actions, and vice versa.

When it comes to the actual research strategy, the study is conducted applying a *grounded theory multiple case* method. First, this means that the study is conducted as a *multiple case study*. Using the case method as a research strategy in the first place, is justified by the novelty of the research – here not in the sense that the theme wouldn't be widely studied, but because of its novel approach aimed to (Eisenhardt, 1989, p. 548.): *"provide freshness in perspective to an already researched topic"*. What is more, the research utilizes a *multiple embedded case method* (Yin, 2017). In practice, this means that there are multiple cases with different settings (here interviewed investment organizations), and multiple units of analysis (here system-level context, investment organizations and individual investment professionals representing them) (Baxter and Jack, 2008). Grounded on a broad body of empirical evidence, this multiple case approach provides a stronger basis for forming new theories than a single case study would (Yin, 2017; Eisenhardt and Graebner, 2007).

Second, the study can be considered as *grounded theory* building, meaning that it is exploratory in nature and iterates between data collection and analysis (Strauss and Corbin, 1994). Although a grounded data structure proposed by (Gioia et al. 2013) is created to classify the initial findings (see Figures 6 and 7 of Appendix C), the final outcomes (summarized in Figure 5 and Table 14) follow more the Eisenhardtian (1989) style of qualitative analysis. But as Eisenhardt and Gioia both argue (Gehman et al., 2018), grounded inductive studies are a “big tent” (ibid, p.288) under which a multitude of different approaches can be utilized – in the end, the robustness and coherence of abstracting claims from findings is more important the use of particular methods.

5.2 Sample and data collection

The primary data source of the study were 18 semi-structured interviews. The semi-structuredness, i.e. that the interview questions were not fully “frozen” but evolved during the interview process, and that informal discussions and emergent follow-up questions outside the specific questions were also included in the sample (though still keeping the interview themes constant), helped enrich the data and iteratively utilize the learnings from previous interviews in the subsequent ones (Ghauri and Grønhaug, 2020; Gioia et al. 2013; Saunders et al. 2009).

As outlined in Chapter 1.2, the scope of the interviews is in Nordic institutional investors. Institutional investors were chosen due to their very high relative power as individual economic agents; their small amount and high homogeneity, compared to e.g. retail investors; and because they are the group with perhaps the most sophisticated existing operationalizations of corporate responsibility (Eccles and Klimenko, 2019; Amel-Zadeh and Serafeim, 2018; Eurosif 2018; Busch et al., 2016). The Nordics, on the other hand, were chosen both because its rather homogenous value base, and because of practical time and resource constraints. One seasoned European consultant with background as the director of an asset management firm with an AUM of €250B+ (Themis) was included in the sample to verify the choice of geographical scope as well as to understand the limits of applicability of the study.

Of institutional investors, private equity funds, family offices and hedge funds were excluded. The extent to which PE funds can apply the principles of responsible investing is limited due to the small number and illiquidity of their investments, as well as the immaturity of responsible investing practices among them. One fund of PE funds investor (Cronus) was included in the sample to verify this and further understand the limitations of the study. Family offices were excluded because being independent actors, much like retail investors, they do not have similar pressure of fiduciary duty or return and responsibility targets as other institutional investors. This exclusion decision was confirmed in a brief phone interview with a prominent family office asset manager (date: 21.8.2019, duration: 22min). Hedge funds, in turn, were excluded due to their immaturity in terms of responsible investing practices, smaller focus on responsibility due to their *absolute return*[29] mandate and practical limitations to access interviewees.

The sample collection process started in mid-2019 with a compilation of a longlist of 311 largest (by AUM) European institutional investors. After this, the scope was tightened to the Nordics and 58 shortlisted investors (based on their LinkedIn profiles) were contacted via email. In contacting these investors, a *purposeful sampling method* (Palinkas et al., 2015) was used. This means that the sampling was targeted towards informants that are likely to be knowledgeable about and willing to discuss the topic. Moreover, the sampling was targeted to reach investors in different roles (e.g. not only responsibility professionals), and with different focus areas (e.g. both asset owners and managers). As argued by Eisenhardt and Graebner (2007), a purposeful and diverse sampling like this decreases the *informant bias*. Of the 58 contacted investors, 22 (38%) responded and 18 (31%) accepted to be interviewed. The interviews were conducted in the fall of 2019 (6.8.-15.10.2019). As the data sample seemed to saturate after 18 interviews, no additional interviews were conducted (Eisenhardt, 1989). See limitations for further discussion about the sample size.

Of the 18 interviewed investors, 8 were classified as asset managers, 7 as asset owners (pension funds and PE fund of funds), 2 as fixed income investors and corporate lenders, and one as a consultant. This was, however, only a high-level classification based on the main activity of the investor. For instance, the majority of investors were involved with fixed income products, such as corporate bonds, even though they were not the investor's main focus. In terms of interviewees' roles and seniority, the sample includes responsibility professionals, investment professionals and general managers from analyst, middle management and top management levels. As discussed in Chapter 6.2.2.4, this rough classification was based on the public titles of the interviewees, which might not reflect their true associations with responsibility in the organization. Moreover, as seen in Table 7, many of the interviewees hold hybrid roles combining e.g. responsibility and investment

[29] https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/absolute-return/, Accessed 28.5.2020

management duties. Regarding regional scope, defined as the main region were their beneficiaries were located, 11 of the investors operated mainly in Finland, 5 across the whole Nordics, one in Sweden and one in the whole Europe.

Prior to the interviews, publicly available information on investment firms' own websites was used to familiarize with the topic, and the interview questions (see Appendix D: Interview Guide) were sent to the informants. The interviews began with a short informal introduction, after which the themes outlined in the Interview Guide were discussed in a semi-structured manner to be able to enrich the data with spontaneously emerging pieces of information (Saunders et al., 2009).

In addition to questions, the interviews also included a short quantitative questionnaire about investors' opinions on the relative importance of their motives to engage with responsible investing. In the questionnaire, the interviewed investors were asked to rate literature-derived possible motives for responsibility on a five-point Likert scale (Joshi et al., 2015; see Chapter 6.1.3.7 and Table 10 for further reference). The purpose of this supportive method of data collection was to help triangulate investors' opinions on the theme (Olsen, 2004). The supportive questionnaire was answered by 16 interviewees, consisting of 7 asset owners and 9 asset managers.

At the end of the interviews, the interviewees were allowed to reflect the themes in their owns words and suggest missing topics to be discussed in subsequent interviews, as e.g. Gioia et al. (2013) recommend. The interview lengths were between 37 and 83 minutes, with an average of 66 minutes. After the interviews, secondary sources, such as information on investors' publicly available websites, were used to find supportive evidence for informants' claims. The conducted interviews, with pseudonymized firm names (as titans of Greek mythology), investor type, interviewee role (RES as responsibility duties, IM as investment management duties, GM as general management duties) and level (ANA as analyst, MM as middle management, TM as top management), main operating region, and interview date and duration (min:sec) are listed in Table 7. To preserve interviewee anonymity, the actual titles of interviewees are only presented in an alphabetical order in Table 18 of Appendix E.

Investment firm pseudonym	Investor type	Main operating region	Interviewee role[30]	Interviewee level[31]	Interview date	Interview duration (min:sec)
Atlas	Asset manager	Finland	RES	ANA	6.8.2019	82:06
Coeus	Asset manager	Nordics	RES, GM	MM	9.8.2019	67:10
Crius	Asset manager	Nordics	RES	MM	12.8.2019	60:42
Cronus	Private equity fund of funds	Finland	IM	MM	14.8.2019	54:23
Eos	Asset manager	Finland	RES	ANA	14.8.2019	70:52
Epimetheus	Asset manager	Nordics	RES, IM	MM	15.8.2019	76:26
Helios	Asset manager	Finland	GM	TM	15.8.2019	69:35
Hyperion	Fixed income	Nordics	RES	MM	19.8.2019	70:30
Iapetus	Asset manager	Finland	RES, GM	MM	21.8.2019	63:48
Leto	Pension fund	Finland	RES & RES[32]	MM & ANA[32]	22.8.2019	83:31
Mnemosyne	Asset manager	Finland	RES, IM	TM	23.8.2019	57:59
Oceanus	Pension fund	Finland	IM	MM	23.8.2019	37:09
Phoebe	Pension fund	Finland	RES	MM	26.8.2019	53:29
Prometheus	Pension fund	Finland	RES	ANA	27.8.2019	90:11
Rhea	Fixed income	Nordics	IM	MM	27.8.2019	57:30
Tethys	Pension fund	Sweden	IM, GM	MM	24.9.2019	55:56
Theia	Pension fund	Finland	RES, IM	ANA	3.10.2019	81:36
Themis	Consultant	Europe	GM	TM	15.10.2019	56:13

Table 7: List of conducted interviews

What is more, also secondary data sources were utilized in the literature review. In the preliminary round of literature review, a mixture of academic and (publicly available) non-academic sources were used to familiarize with the topic at a high level. In the main round of literature review, a set of established academic databases (Google scholar, Web of Science

[30] RES as responsibility duties, IM as investment management duties, GM as general management duties
[31] ANA as analyst, MM as middle management, TM as top management
[32] Two persons from the investment firm attended the interview.

and Scopus) were searched with relevant keywords[33]. In addition, the search was scoped to academic journals from the fields of Environmental science, CSR, Finance and accounting, and Management that achieved a Scimago Journal Rank[34] of at least 0.7. See Table 19 of Appendix F for the full list of the 58 academic journals identified with in this manner. Of the total mass of articles, 247 most relevant were selected to a longlist of literature sources, based on which the main parts of literature review were created. What is more, in the review of the most common responsibility measures for investors (see Chapter 4.2.2), publicly available information on responsibility raters' own websites and non-academic reports were used to triangulate (Olsen, 2004) on the theme.

5.3 Data analysis

The data analysis was conducted applying both Eisenhardt's (1989) qualitative analysis method and the *Gioia methodology* (Gioia et al. 2013), that seeks to provider rigor to grounded research by simultaneously iterating between the data, literature and new theory formation. The process began with a brief literature review on academic and non-academic sources and informal discussions with the thesis advisors, based on which the initial research scope and questions were formed. Following the advice of Gioia et al. (2013, p. 21): "*There is value in semi-ignorance or enforced ignorance of the literature*", the initial literature review was intentionally kept as a brief one, mainly to be able to maintain the fresh perspective that Eisenhardt (1989, p. 548.) talks about. After the first two interviews, the interview themes were "frozen", though the semi-structured interview style allowed for fine-tuning of question wording and new emergent themes to evolve in the subsequent interviews (Ghauri and Grønhaug, 2020).

Each interview was recorded, except one as the informant forbade this, and brief field notes were also written within 48 hours of each interview. After the last interview, all the interviews were transcribed to text format. The transcripts were then openly coded using the Atlas.ti[35] software to form what Gioia et al. (2013) calls 1st order codes. The idea here, as outlined by Wildemuth (2016), is to use the terminology and conceptualizations of the informants as much as possible. This resulted in 412 1st order codes. Next, several cross-case analyses were conducted using both pairwise and theme-focused comparisons, as recommended by Eisenhardt (1989). With the help of discussion with the thesis advisors, 48 2nd order codes (Gioia et al., 2013) were formed in this manner. After this, the main round of literature review was conducted as explained in Chapter 5.2 Then, the initial

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33 corporate responsibility, corporate social performance, responsible investing, responsible investment, sustainable investing, sustainable investment
34 https://www.scimagojr.com/, Accessed 8.6.2020
35 https://atlasti.com/, Accessed 8.6.2020

findings were examined against the existing literature and similarities and differences between them were sought (Eisenhardt, 1989). This process resulted in the 27 final 2nd order codes and corresponding aggregate dimensions for both the questions why investors are interested in RI and how they operationalize it (see Figures 6 and 7 of Appendix C), based on which the findings were written. Finally, the findings were distilled into the emergent theoretical contributions that were presented, as Eisenhardt (1989) and Gioia et al. (2013) recommend, in summarizing frameworks (Figure 5 and Table 14).

5.4 Reliability and validity

Following Yin's (2017) classification, the robustness of qualitative studies can be analyzed through three types of validity – construct, internal and external – and with its reliability. The first aspect, *construct validity*, asks, whether the measures used in the study are really suitable for answering the studied phenomena. This study addressed construct validity in several ways described by Yin (2017). First, its multiple case method by definition uses multiple sources of evidence, increasing construct validity (Eisenhardt and Graebner, 2007). Second, the study used triangulation (Olsen, 2004; Riege, 2003) whenever possible, e.g. in the Chapter 4.2 of literature review and Chapter 6.1.3.7 of the findings. Third, the *Gioia methodology* (Gioia et al., 2013) provided extra rigor in the analysis phase strengthening what Yin (2017) calls "the chain of evidence".

The second condition of robustness, *internal validity*, refers to the rigorousness of the established causal statements. Since the study is not explanatory but exploratory in nature, this type of validity is not very relevant for it. Nevertheless, the use of a rigorous data analysis process (Gioia et al., 2013), use of existing literature as support (Eisenhardt 1989), as well as several cross-checks with the thesis advisors helped address internal validity.

The third type, *external validity*, is related to the generalizability of the study. The study's focus on the Nordics makes it hard to fully generalize findings outside the region. However, given the multi-faceted nature (Montiel and Delgado-Ceballos, 2014) and institutional dependencies of corporate responsibility (Matten and Moon, 2008), generalizing the findings would have required substantially more data, e.g. as many interviews from each culture-economical region as there were from the Nordics. Moreover, as the study applied a grounded theory approach, the link to existing theory that e.g. Riege (2003) mentions as a hint of external validity was not by definition very strong. Though the exact parameters of the findings might not be fully generalizable, many of its broad theoretical implications (e.g. about systemic mechanisms behind investors' practices of and motives for responsible investing) may still be found theoretically interesting.

Finally, the *reliability*, i.e. repeatability, of the study can be analyzed from both participants' (interviewees) and observer's (interviewer) points of view (Saunders et al., 2009). Following the argumentation of Saunders et al. (ibid), the interview setting (familiar location at investors own offices, sufficient time for the interview) likely decrease *participant error*. In addition, *participant bias* was mitigated by providing anonymity for the interviewees, and e.g. deliberately not letting the informants to double check the analysis. The rationale for the latter was that as the study is somewhat critical in nature, the informants might have had incentives to try to affect the final analysis in their favor. *Observation error* was minimized by "freezing" the interview themes after the second interview, though the semi-structured interview method inevitably contains some error of this type (Ghauri and Grønhaug, 2020). *Observation bias*, on the other hand, was tackled with the help of qualitative rigor of the *Gioia methodology* (Gioia et al., 2013).

6 Findings

6.1 Why are Nordic institutional investors interested in responsible investing?

6.1.1 The societal antecedents of corporate responsibility

6.1.1.1 The financial imperative of capitalism as the main motive for responsible investing

To understand why investors are interested in responsible investing, the societal antecedents of corporate responsibility must be analyzed. In short, these antecedents refer to the normative environment and corresponding institutionalized structures in which the investors operate. The first part, normative environment, are the prevailing societal value base, social norms, and cognitive and behavioral schemata related to corporate responsibility. In this context, these can be seen for example in society's collective answers on why companies exist and to whom and for what are they responsible. Ultimately, as discussed in Chapter 2.5, they are institutionalized in the economic and political systems, the division between public and private and the legal boundaries in which companies and investors operate.

In the following chapters, the effect of these societal antecedents on institutional investors' interest in responsible investing are analyzed through two key themes: investors' views on fiduciary duty and the purpose of companies, and how corporate responsibility in its broad sense may or may not help pursue risk-adjusted returns. Chapter 6.1.1.2 indicates that a strong *financial imperative* of capitalism, namely the fiduciary duty, binds investors to pursue risk-adjusted returns above all else. On the other hand, as Chapter 6.1.1.3 summarizes, most investors do not think that responsibility and returns are contradictory but that investing responsibly is an effective means to achieve better risk-adjusted returns. Some investors, however, challenge these claims by stating that higher cost of active management and a diminished investment universe may offset the possible outperformance of responsible investing, that the conceptual ambiguity and lack of undisputed data on responsibility can yield any results, or that whole categorization of investments to "responsible" and "other" is itself detrimental for a more sophisticated understanding of corporate responsibility to emerge.

6.1.1.2 The purpose of companies and the mandate of investors

> *"To exaggerate, we do this [responsibility] just for the money… to get better returns and find the risks. Better risk management and sustainable returns over the long-term, that is." (Eos)*

> *"That's easy: we believe in finding companies with higher returns and lower risk. That's the main reason." (Tethys)*

The quotes above from two asset owners summarize well what investors consider to be the main motive of engaging with responsible investing: to improve risk-adjusted returns. To put it in other words, taking responsibility into account is simply about complying with the investment firm's fiduciary duty, that obliges it to focus on its beneficiaries' financial interests above anything else. Conversely, as one investor states, not utilizing all the extra information that engaging with responsibility matters provides, would be against their mandate and violate the clauses of fiduciary duty:

> *"Why wouldn't we do it? If we didn't do it, we would leave crucial elements out from the investment analysis. For us, really simply put, it's good portfolio management. That has been our view from the beginning. For us this is not tree-hugging. -- It is good portfolio management, it is risk management, it is identifying risks and opportunities, it is looking at the companies we invest in or would like to invest in from different angles in order to get understanding of the value creation potential of that company." (Leto)*

What is more, the interviewees imply that this overarching financial imperative is not only related to investment performance but also to the general profit-maximizing of the investment firms. This means that practically all other motives, were they then related to customer service or employee satisfaction, ultimately serve the interest of the profit motive:

> *"On behalf of our fund and the whole group, I must say that there stands "public limited company" after the name of our group and it means that the aim is to make money. In the end, we want to make money not only for the clients but also to ourselves. This is not charity." (Rhea)*

The purpose of companies, though being a theme of debate from time to time, is currently very explicitly societally operationalized as the fiduciary duty of companies (see Chapter 2.5). This view is proposed by many investors, especially pension funds who are bound by the strictest possible fiduciary duty regulation (see Chapter 6.1.3.2). As one pension investor puts it, the *responsibility* in responsible investing means being responsible to one's beneficiaries for returns:

> *"The answer is no. You cannot invest responsibly if you get lower returns. A responsible investor is also responsible for the returns." (Leto)*

Similarly, as the same investor continues, the proponents of this view also state that if this responsibility for returns were abandoned as the main guiding principle of companies, the subject matter would no more be corporate responsibility but charity:

> *"… are we still talking about investment or philanthropy or charity? -- Sometimes people forget that we are still talking about Investments [sic]. They have risks and returns, the two sides of the same coin, and they are both present. If you do not have to worry about returns, you only need to worry about the risks. And if it is so that you don't even have to get your money back, meaning it is charity, then it is a whole different ball game." (Leto)*

Some investors, on the other hand, take the position that responsibility and returns can be pursued simultaneously or that responsibility increases risk-adjusted returns (see next chapter for elaborate discussion on the topic), meaning that the returns and responsibility could form an internally consistent dual purpose of companies:

> *"Our business plan is to secure future pensions. We have a return target and we must meet it. We don't think there's a contradiction between doing long-term good investments and our business plan." (Tethys)*

> *"Nowadays you hear from American top executives that we don't anymore have a tunnel vision of focusing only on profits but there are other societal aspects, too. Profits are still important, but you have to understand that there is no contradiction." (Mnemosyne)*

Some take the middle ground by noting that the "right" purpose of a company is a context-dependent issue. For instance, as this investor argues, pension funds might serve their societal purpose best by just focusing on their mission of securing pension assets and payments:

> *"It's also good to notice that investors are very different. As a pension insurer we are very different, because we have a responsibility of pensions through our returns. -- Our duty is to create social good by taking care of the ability to pay pensions. -- So what's the starting point, how's the portfolio, how is it operated, who are the customers, what is the promise to them… all of these have an effect on what you can do in terms of responsible investing." (Phoebe)*

Still, many investors argue that this type of returns-first thinking is an outdated purpose for companies. Even though they do not all mean that companies shouldn't consider profits, they, as these two investors, argue that in our current world, profits may be best driven when one does not blindly focus on serving the interests of one's shareholders:

> "*Admittedly, when one starts to think this from a finance theoretical point of view, we have had the problem that the purpose of companies has been very explicitly defined... if you think about the Markowitz-Friedman framework in which the purpose of companies is to make as much profit for the shareholders as possible, and the role of the society is to set the norms and laws according to which companies can pursue their profits, period. In that sense the world has changed... that is not a very valid strategy anymore." (Iapetus)*

> *"I see again and again in my work that an investment manager or CIO, usually male, middle-aged and white [thinking when talking to me], "who is this dangerous tree-hugger that is in front of me", and I am explaining that the world is not as he thinks it is. For some, there's a realization or shift that it's just his job that I'm talking about and that he has already started to do it this way." (Themis)*

Finally, some investors also add that the purpose of companies, how hard it may be to define decisively, is one of the key parts of a systemic change that our societies are forced to make when facing the current ecological catastrophe:

> *"... because we do, in the end, live on a closed Earth, and this current overconsumption is coming to its end, meaning that something must be done for the system from every player's point of view. This concerns the area where we change the whole system and the fundamentals based on which it works... why companies even exist, in the first place. It's quite tough a question." (Crius)*

6.1.1.3 Pursuing responsibility and returns simultaneously

The relationship between the social and financial performance of companies is one of the most central debates in corporate responsibility literature. As outlined in Chapter 2.6, this *CSP-CFP debate* concerns whether responsibility (CSP, corporate social performance) and returns (CFP, corporate financial performance) can be pursued simultaneously, and which of the two causes the other. Analyzing investors' views on the debate helps understand why they do or do not apply certain practices of responsible investing, given that the financial imperative created by fiduciary duty binds them to follow return targets. The varying opinions of investors on the issue are collected in Table 8.

Most investors support the proposition that CSP can improve CFP – that it is possible to pursue responsibility and returns simultaneously. As the quote from one investor illustrates, most investors are hence confident that pursuing responsibility does not hinder but actually helps generate returns:

> *"If you can answer the global challenges of today... then I believe that in addition to saving the world, I believe that you will also win as a company." (Atlas)*

Opinion on pursuing responsibility and returns simultaneously	**Representative quotes**
Investing responsibly improves risk-adjusted returns (in the long run)	*"If you can answer the global challenges of today... then I believe that in addition to saving the world, I believe that you will also win as a company." (Atlas)*
Investing responsibly does not compromise risk-adjusted returns	*"We believe that we don't at least have to compromise returns [when investing responsibly]." (Theia)*
Investing responsibly does not improve risk-adjusted returns (due to less diversification and costs of active management)	*"... if you exclude some sectors from your investment universe, then you give away the free lunch of the market – diversification." (Crius); "If... active management costs more due to [responsible strategies], there will likely be underperformance." (Helios)*
The debate stems from ambiguous definitions and poor measures	*"You can get any evidence to support both main arguments by data mining". (Mnemosyne); "Here we return to the terminology and what we mean by responsible investing. -- They might have defined responsible investing as excluding a few industries and that's it." (Atlas)*
The debate stems from a false dichotomy, there are no separate responsible investments	*"... the management doesn't need any kind of ESG agenda because [it] is obliged to do everything that helps the company forward." (Helios); "We have... a philosophical definition problem which is the bucket of ESG issues. It is getting emptier, but we still think that it is separate from "Investment" [sic] somehow. That task is not to create something new or additional which is responsible investment but to change investment itself." (Themis)*

Table 8: Investors' opinions on pursuing responsibility and returns (the CSP-CFP debate) simultaneously

Particularly, most investors think that this argument applies in the long run. In other words, they argue that irresponsible "sin stocks" might generate better returns in the short run (i.a. because responsible investors might have diluted their price by divesting), but this anomaly will vanish in the long run:

> *"In the short run you can deliver higher returns by cheating etc., but in the long run the only way of delivering high returns with low risk is to have a well-run company." (Tethys)*

> *"There's also some evidence that sin stocks would perform well but that might be because so many have rejected them. But that's not sustainable, it's just an anomaly that will fix itself when it's been noticed." (Rhea)*

Moreover, some investors also note that not only the level but also the momentum of responsibility perception (in practice the responsibility ratings), can be a source of outperformance:

> "*You can make ESG investments in so many ways: the best ones, the ones whose ratings are rising... For instance, currently it seems that one can outperform by investing when the ESG momentum is positive. No matter how bad it actually is." (Mnemosyne)*

Some investors take a bit more cautious position by stating that even though one might not be able to yield outperformance with responsibility, one does not, on average, have to *compromise* returns, either:

> *"The majority of academic studies state that they [responsible investments] yield at least as well as ordinary ones, not at least less. Of course, some studies report much better and some much worse results. One has to also remember that not all responsible investments outperform." (Eos)*

> *"We believe that we don't at least have to compromise returns [when investing responsibly]." (Theia)*

Not all investors, however, agree on the argument that responsibility and returns can be pursued simultaneously. One central, but also debated argument rationalizing this view is that responsible investing requires active investment management, that is likely to eat out any possible extra gains that responsible investments may yield:

> *"There is very solid evidence one cannot outperform with active investment management in the long run. Active management can work for some very special niche market. -- I don't have any thoughts that responsible investing as an*

> *umbrella term would yield outperformance. If… active management costs more due to it, there will likely be underperformance. There might be momentarily outperformance through liquidity effect but that will always be followed by momentarily underperformance if the underlying business logic doesn't change." (Helios)*

This argument is opposed by some investors, who, on the contrary, believe that active investment management can be consistently used to yield outperformance. What is more, as one investor argues, asset managers might still themselves perform better with active responsible investing strategies, given that the their own business logic is based on fees from clients who might value pursuing responsibility for its own sake:

> *"We saw a lot of assets drifting towards passive investment post financial crisis and that was because of a breakdown in trust. People just stopped believing that active investment management is worth anything. Why would you pay big fees if you don't get anything back? Responsible investment is a great response to that… because it gives a shared purpose with the clients in a sustainable outcome." (Themis)*

A second argument for the view that responsible investments, here particularly ethical screens, cannot outperform, relates to the fact by restricting one's investment universe, diversifying one's portfolio becomes harder and hence risk-adjusted returns will decrease:

> *"It's very basic investment theory that if you exclude some sectors from your investment universe, then you give away the free lunch of the market – diversification – and the expected value of our returns decrease." (Crius)*

This argument too, however, comes with counterarguments. First, some investors note that it only applies to exclusionary screening but not to any other responsible investing strategies. Second and third, they argue that the potential decrease in the investment universe is very small and can be mitigated by creating synthetic financial products that mimic the properties of the excluded stocks. As this investor states:

> *"The only argument is that [responsible investing] would decrease it [risk-adjusted returns] an ethical, i.e. exclusionary strategy. -- If you look at how much is the exclusion of the [investment] index space… it's typically 1,5%-3%, depending on the market. -- Now, if you exclude tobacco… you can buy synthetic tobacco companies, i.e. look at the factors of which the tobacco companies consist. -- You can mitigate the theoretical problem of exclusion by that." (Mnemosyne)*

On the other hand, many investors also note that the whole debate about the causation between responsibility and returns is only as high in quality as the comprehension and consequent measures of responsibility. That is, as these investors argue, you can derive results supporting any of the aforementioned stances depending on how you have defined and measured responsibility:

> *"You can get any evidence to support both main arguments by data mining". (Mnemosyne)*

> *"Here we return to the terminology and what we mean by responsible investing. -- When you look at it in more detail, they might have defined responsible investing as excluding a few industries and that's it." (Atlas)*

Finally, some investors argue that the whole discussion about responsible and "normal" investments is a conceptually flawed one. These investors argue that making the distinction of responsible investments as a somehow separate category, is based on a flawed mental model, and partly contributes to the lack of adoption of truly responsible investment practices. They state that we should not really think about responsibility as any more special information than any else additional information supporting investment decisions:

> *"If it really is so [that ESG brings valuable business opportunities], the management doesn't need any kind of ESG agenda because management is obliged to do everything that helps the company forward. It can be part of the strategy if we believe that it helps develop the business in the long run. If... not, then it won't stick for long. Of course, responsible stock can outperform, as can any other stock." (Helios)*

> *"We have kind of a philosophical definition problem which is the bucket of ESG issues. It is getting emptier, but we still think that it is separate from "investment" somehow. That task is not to create something new or additional which is responsible investment but to change investment itself. -- I think this is what we're moving away from, I hope so. The question has behind it the belief that by undertaking responsible investment we are necessarily constraining the opportunity set to the detriment of the investment returns. -- The newer understanding of this is that you can do better as an investor by attending to sustainability themes, and investors have started to do this because they have to. Therefore, we are transforming investment management and it's transforming right now to become sustainable and responsible in the true sense. -- Your question supposes that there is a constraint, but that constraint isn't real, it's an illusion. A belief that needs to change and has started to change." (Themis)*

6.1.2 Investment professionals' personal motives for responsibility

6.1.2.1 The misalignment of investment organizations' and individual investment professionals' motives for responsibility

> *"There are two basic reasons [to engage with responsibility]. One, you think it is material for the investment decision. And two: you might be concerned with the activities of the company if they are inconsistent with your view of the world. The mix of the reasons depends on the investor." (Themis)*

The quote above illustrates the importance of analyzing individual investment professionals' personal values and views when trying to understand why investors are interested in responsible investing. Given that the comprehension of corporate responsibility is, to a large extent, socially constructed and cognitive frame-dependent (Himick and Audousset, 2014; Hahn et al., 2014; Matten and Moon, 2008) the personal factors, feelings and fantasies of investment professionals inevitably affect why and how they operationalize responsibility in their professional role. To account for these factors, the following chapters summarize the findings of two key themes related to investors' (more or less underlying) personal motives.

Chapter 6.1.2.2 concerns investment professionals' possible altruistic motives of using their powerful position to make a positive change in the world. Four key means to make capitalism more responsible emerge from the analysis: focusing on capital issuances and engagement instead of aftermarket stock divestments and investments, affecting on consumers' and companies' real consumption and investment decisions, promoting stricter regulation and common good-focused corporate lobbying, and making the whole capitalistic system more long-term-focused.

Second, as Chapter 3.1 briefly addresses, the nature and hierarchy of motives of investment firms and individual investment professionals might differ substantially. Moreover, the existence and severity of investment professionals' cognitive dissonance may provide implicit evidence of such motive misalignment. Hence, Chapter 6.1.2.3 analyzes investment professionals' cognitive dissonance – do they feel they can act according to their values in their current professional positions, that is – and finds that only few investors admit feeling it. The key reasons for this seem to be that investors either feel that they are already promoting maximal positive change in the world as being responsible investors, or they note that the prevailing financial imperative and sometimes even oppressive organizational culture self-fulfillingly constrain their personal views, too.

6.1.2.2 Investment professionals' views on the means of making capitalism more responsible

This chapter discusses investors' opinions on the effectiveness of responsible investing strategies, as well as other means, to really make a positive change in a more general societal picture. Investors' opinions on the theme are summarized in Table 9.

When it comes to the effectiveness of responsible investing, one argument is raised very often: that divesting (or investing in, for that matter) liquid stock of large listed companies has few real-life responsibility impacts. The rationale for this is that when a rather minor investor divests publicly listed stocks, by definition some other investor must buy them. Moreover, as these two interviewees state, these new investors are likely to be even less interested in engaging with the irresponsible company to cause a positive real-life impact:

> "*At some point investors began to realize that it doesn't really matter who owns stocks. If you for example sell your stock of an alcoholic beverage company, does that mean that people will drink less liquor? No, it doesn't. They don't give a dime who owns the company." (Helios)*

> *"There is this huge divestment movement: just get rid of sin stock. You have to remember that this is a market. It [the divested firm] has got a great product, now it is priced a bit lower. -- What is the impact on the society? Are emissions any lower? There is nothing. To put it in a Finnish perspective: Finland decides not to use coal. What happens to the emissions level? Are we still keeping this in the emission budget? Are we taking the emissions out of the emissions budget? That is the impact. If we take them out it means we cannot emit them. If we keep them, the fact that we just decided not to emit them means that someone else outside Finnish borders is going to use it. And climate is a global thing. It is not that I didn't do something and hence I'm a really good person now if whatever you decided not to do is actually done by someone else." (Leto)*

The same investors do admit, however, that this is true only as long as the stock is liquid and the divestment (or investment) movement is rather minor relative to the stock's market capitalization. In addition, as this investor argues, excluding certain industries can allow one not to benefit financially from the success of these industries and not to be financially disincentivized to drive changes in these industries – even though it might not directly have real-life impacts:

Means to make capitalism responsible	Rationale	Representative quotes
Focusing on capital issuances and engagement	Divesting or investing liquid stock in the aftermarkets has minimal impact on the underlying companies, contrary to new equity/debt issuances and engagement.	*"… it doesn't really matter who owns stocks. -- It is to some extent possible to affect the world by attending capital issuances and by giving loans." (Helios); "If we see that there are [responsibility] faults in a firm… our approach is to engage with it rather than sell it." (Phoebe)*
Affecting real consumption and investments	Fiduciary duty binds investors not to deviate too much from how consumers and companies act. Changes in real investments and consumption make real changes.	*"The second consumers start moving towards the 1.5C [climate target], the investors will move quicker towards it. -- As long as investors have to generate returns and consumers are not [leading the way], investors are somewhat stuck between a rock and a hard place." (Leto)*
Promoting regulation and reforming corporate lobbying	Systemic changes require regulation. Corporate lobbying seldom pursues the common good.	*"In the big picture, the responsibility is at the public and political levels, and on the guidance, regulation and structural reforms coming from there." (Cronus); "Lobbying doesn't really affect aggregate demand but e.g. the fact whether American farmers get protection. How do you divide the pie, that is." (Helios)*
Shifting the financial industry to be more long-term-focused	The more long-termist investors would be, the more they would consider pressing global issues, i.e. responsibility matters.	*"… the short-termism of the financial industry is a big problem for responsibility. -- We should make the whole market more long-termist. Then responsibility would naturally be a part of the decision making." (Phoebe)*

Table 9: Investors' opinions on the means to make capitalism more responsible

"This is a way for an investor to bind his or her values with his or her investments. One can think that if one doesn't accept issue X, one doesn't benefit from its success. -- I personally invest responsibly happily so that I benefit only from trends that I would like to happen. -- And I provide it to customers also so that they can act holistically according to their own values in all their societal roles without having to think about financial conflicts." (Helios)

Still, many investors argue that capital issuances – were they then equity offerings or e.g. bond repurchases – can have a real-life effect even when the investor has much less relative power:

"It is to some extent possible to affect the world by attending emissions [capital issuances] and by giving loans… and by making PE investments in startups." (Helios)

"As we are a bond fund, we cannot vote in AGMs. Engagement comes in the way that… bonds aren't really never paid back but re-financed… so there we can affect. Of course, we can also, as a last resort, sell the bond before its maturity." (Rhea)

As an effective way to make a change in the world, many investors emphasize affecting the real economy, especially consumers' choices. As long as consumers' habits do not change, investors, bound by fiduciary duty, are not able to change the world alone:

"The second consumers start moving towards the 1.5C [climate target], the investors will move quicker towards it. If consumers do not in their actions believe in the 1.5C [climate target], then the investors are staying back from it. Investors alone cannot move everything… if the consumers are not [leading the way]. That is one part that has not been discussed that much in the media. A lot of pressure has been put on the investors. As long as investors have to generate returns and consumers are not [leading the way], investors are somewhat stuck between a rock and a hard place. I am not making this as an excuse not to do anything. No, we need to move. But so should the customers because if they are left behind… we are not getting returns." (Leto)

As another effective means, investors mention regulation. Their argument is that regulation is of paramount importance in making real systemic changes in the world. As two investors put it, leaving responsibility to depend on the good faith of people is far from enough:

"In the big picture, the responsibility is at the public and political levels, and on the guidance, regulation and structural reforms coming from there. The number of meatballs eaten by a single person might help feel that one is doing something, but

it doesn't really move the needle. The world changes with much larger actions. -- You cannot leave it on conscience. This resembles the question of what is the responsibility of a single company and what is the responsibility of capitalism." (Cronus)

"We need regulation, now it's hard to grasp hardly anything what's happening in the markets. Regulation is insufficient as it e.g. doesn't consider what green bonds are outside Europe. -- You could have e.g. very similar products in the US or China that don't have this status. -- Many players, including us, can talk a lot about responsibility without being that responsible. -- It feels like there's one very important question to which everyone has a really hard time complying, unless they have to." (Prometheus)

On the other hand, investors do not fully agree whether investors and companies should engage with regulation, and if so, how. Some, as the first quoted investor, argue for more active lobbying practices, while some, as the second quoted investor, argue that investors should "lobby to end corporate lobbying":

"What was responsible or sustainable or ethical investment in the Nordic region had been "let's just not invest in certain things" and now it's "well, isn't there something else to do which is to recognize that we are a part of the system and as a part of the system we cannot pretend that we are not involved in these sort of companies and activities... so how do we behave in order to produce a more sustainable outcome". And that means getting engaged - not just with individual companies but with regulation." (Themis)

"Lobbying doesn't really affect aggregate demand but e.g. the fact whether American farmers get protection. How do you divide the pie, that is. -- One can promote it [de-lobbying] by pressuring the government and by monitoring... by creating public pressure." (Helios)

Finally, investors propose promoting long-termism across the financial industry, arguing that it would automatically make investing more responsible. They argue that the more long-termist a perspective you have, the more you will have to take the whole global economy and its megatrends into account, thus causing investors to be interested in the pressing problems of our time:

"We don't choose between returns and societal good... we think that these are aligned in the long run. -- Hence, it's in the best interest of the company to think of its impacts on the environment and society, for it to be alive in 20 years from now.

-- We feel that the short-termism of the financial industry is a big problem for responsibility. -- We should make the whole market more long-termist. Then responsibility would naturally be part of the decision making." (Phoebe)

As one investor argues, one way of making the industry more long-termist could be to change investors' mindsets and hence investment philosophies from a transaction-focused to a relationship-based one:

"The basic problem is that the investment industry is coming from a place which is very transactional. It has to do with… how do you say… how you see value being created. So how do we investors create value? Do we do it by buying and selling investment products or do we do it by the quality of relationships that we build? We are moving in the understanding from the first to the second, from short-term to the long-term which is essentially a recovery from a neoclassical economic worldview. So, you lay that across the idea of exclusion vs. engagement or avoiding investing in companies towards investing in companies for the right reasons. That's the shift that has been going on." (Themis)

6.1.2.3 Cognitive dissonance between investors' personal views and professional actions

Though directly observing the hypothesized mismatch between investment firms and individual investment professionals is very difficult, investors' cognitive dissonance might indicate that such a mismatch exists. Of the interviewed investors, most do not at least admit feeling cognitive dissonance between their personal views and professional actions on responsible investing. There are, however, a myriad of different reasons for this. First, many investors state that if they had too much cognitive dissonance, they would not really be able to be work in their current roles:

"You simply cannot do this if you really don't believe in it. If you feel doing against your values at work, it must be quite difficult to do it." (Iapetus)

"If you disagree with your employee, it makes no sense to be there, you lose sleep over it." (Oceanus)

"It might be hard to be in this role if I thought differently." (Mnemosyne)

Many of these investors think that in the current form of capitalism, the profit motive is already more or less aligned with pursing responsibility, and therefore they do not have to feel cognitive dissonance as "pure capitalists":

> *"I want to believe you can improve these things through seeking profits. Everything that aims at providing ESG information which again increases abilities to choose succeeding firms, and hence firms want to do this [responsibility]. I think about this chain quite capitalistically, also as a private person." (Mnemosyne)*

> *"One thing that I personally believe in in this world is the market economy. I at least want to believe that the market economy will eventually guide us to act in the right way. -- I don't [feel cognitive dissonance], I believe that the market economy will determine responsibility best from my point of view." (Rhea)*

On the other hand, some comment that they do not see the most discussed responsibility issue, climate change, to be that revolutionary to their investment activities, anyhow. As these two investors argue, overlooking these issues is hence not that large of a problem for them:

> *"Let me put it this way: for banks… if you look at Finnish players like us, climate change is of course not such a big megatrend affecting our future than, say, to a forestry company operating in rainforest areas." (Coeus)*

> *"It doesn't really matter for a passive investor how climate change issues are solved. None of these options [climate scenarios] would mean that the world economy would end. People won't stop eating or having fun – or they might but then we would be in a totally different world." (Helios)*

Some investors, especially large pension funds, add to this that their large size combined with requirements to diversify their portfolios restrict them from not investing in a large number of companies, meaning that they are obliged to also invest in irresponsible companies to be able to achieve sufficient diversification:

> *"I would probably be much more responsible as a private person because I wouldn't for example have the issue of diversification, I could concentrate more." (Oceanus)*

> *"If I wasn't ready to make any compromises and gave money only to perfect opportunities, their amount would contract to so small that it would even be dangerous… you still have to diversify at least a bit, as you know." (Atlas)*

There are, however, also some investors that do admit feeling at least some cognitive dissonance:

> *"If I wasn't looking at this from an investor's perspective, I would pay attention [to responsibility] in a much wider sense. Then I would include all the environmental and societal impacts of companies into the responsibility assessment. -- [Interviewer: why don't investor care about them?]. Because if you need to yield returns, your focus cannot be all over the place. -- Of course, I would hope that everyone acted honestly all the time... personally I would want that every employee in every company would think about the impact of their actions on the whole surrounding society in a 10-year timescale. -- But the world isn't unfortunately perfect." (Phoebe)*

> *"The more I have worked with this, the more I have started to pay attention to it [responsibility]. Working with this topic has also changed my personal views." (Theia)*

Many of these investors admitting cognitive dissonance rationalize their thinking by arguing that as large substantial players of the market economy, institutional investors have a moral obligation to help pursue global responsibility, which many of them associate with the UN sustainable development goals[36], as well as promote linking the comprehension and measurement of responsibility to it:

> *"Capital must be moved towards responsibility and we, as a major player, have a responsibility to help and shape this industry so that money moves to the right places. -- Returns are important because that's the only reason we exist but... it's important that we help achieve e.g. the UN goals with a 2,2 trillion yearly investment deficit, which states and NGOs are alone unable to cover." (Atlas)*

> *"But from this point of view, we should promote equality or decrease inequality. In my opinion, global sustainability simply means decreasing inequality. If [responsibility] measures or KPIs don't relate to it, then they are useless from this point of view." (Crius)*

Finally, some investors point out that there is and has been cognitive dissonance among investment professionals but the suppressive working cultures of investment firms have prevented investment professionals from expressing, and even to some extent realizing the cognitive dissonance they have had all the time:

> *"There is a cognitive dissonance that is often ignored to the detriment of the culture in the investment institutions. For much of my career, the investment managers were expected to leave their personalities at the door. In the old transactional view,*

[36] https://sustainabledevelopment.un.org/?menu=1300, Accessed 8.6.2020

you don't want to be distracted in all that. You focus on what you think matters, which is the short-term financials. Of course, that's no longer sufficient. And that gives rise for an opportunity to investors and investment management firms to start connecting their beliefs and values to their investment activities. Not as something additional to investment but as a part of investment that leads to greater success. This interesting change suggests that we're making a connection with our personal why, our purpose and the quality of the work we do. Given the generation you're part of that's obvious, we should be doing that. But that hasn't been the case for 20 or 30 years, we supposed that that was irrelevant. What mattered was did we produce the investment returns and did we do it legally and that's all. Who we are and what we believe as investors was irrelevant. But now it is relevant. To answer your question, I think they're starting to realize that there was a dissonance and they're starting to act to address it. And that leads to strengthening the cultures and relationships of investment management firms." (Themis)

6.1.3 Investment organizations' motives for responsible investing

6.1.3.1 Responsible investing as an explicit and implicit manifestation of the financial imperative

As outlined in Chapter, 6.1.1, the fiduciary duty and its antecedents create a strong financial imperative for investors: improving risk-adjusted returns seems to be their main motive for responsible investing. This financial motive is seen in investment firms' organizational motives in two ways.

On one hand, responsible investing explicitly helps the firms in their investment activities – in managing risk, improving returns or both. Chapters 6.1.3.2 and 6.1.3.3 elaborate these motives in more detail and classify them into long and short-term oriented risk management, inherent risk focus of certain investors (e.g. pension and bond investors) and investment opportunity seeking.

On the other hand, Chapters 6.1.3.4, 6.1.3.5 and 6.1.3.6 show how the financial imperative is implicitly seen as marketing-related motives, such as answering client demand, improving public image and legitimacy signaling with responsibility certificates and agreements; in HRM[37]-related motives like recruiting and motivating employees; and in knowledge-related motives like learning about responsible investing by doing it. Most of

[37] human resources management

these implicit motives are reflections of individuals' non-financial motives in which responsibility is valued for its own sake, as for instance in investment professionals' motives for meaningful work (see Chapter 6.1.2) or retail clients' motives to invest responsibly for its own sake.

Finally, the relative importance of all the motives are discusses in Chapter 6.1.3.7. As an indicative evidence, risk management and legitimacy signaling through responsibility certificates seem to be the most important motives, especially for asset managers. The full list of identified motives is presented in Table 10.

6.1.3.2 Investment risk management

Of the two components of risk-adjusted returns, the risk-side seems to be the more important one for the investors. Most investors comprehend and apply responsible investing in the form of ESG integration. Additionally, they seem to associate these ESG issues with companies' operational matters such as the question "how companies produce and deliver their offering", whatever this offering happens to be. This might be one reason why so many investors – who, as said, mostly associate responsibility with risk-focused ESG issues – emphasize the risk management side of responsible investing so much:

> *"... but the main reason is the risk view, meaning that if a company doesn't consider ESG issues, it usually bears larger risks. We, as investors, have to be able to monitor so called non-financial risks in addition to the traditional financial risks." (Atlas)*

Naturally, risks and returns are fundamentally connected in the long run. As these investors think, responsible investing can outperform in the long run by helping find companies that are resilient, i.e. can overcome the various challenges of the market environment in the very long run:

> *"My idea is that these [responsible] companies can last the pressures of change over the coming century. -- Our clear goal is to aim at good long-term investment performance. -- Then the resilience [of companies we invest in] is the question defining it." (Iapetus)*

> *"I believe that companies who have corporate responsibility are more transparent to their clients, they listen more to the market. In the long run their business models have a better possibility of surviving." (Epimetheus)*

The same type of rationale to manage the tail risks of companies is reflected in the comments of investors who take a more short-term view on risk and emphasize the ability of responsible investing to help manage controversies and crashes:

Theme	Reason	Representative quotes
Investment risk management	**Long-term business resilience and low tail risk**	*"… companies who have corporate responsibility…in the long run their business models have better possibility of surviving" (Epimetheus)*
	Short-term cost of capital and controversies	*"… they avoid controversies that affect the stock price" (Atlas) ".. risk [is a reason] also because it lowers cost of capital" (Theia)*
	Legal obligation of pension funds to manage risk	*" We are bound by legislation to invest in a secure and profitable manner." (Leto); "… our responsibility number one is to manage pension assets in the long term." (Phoebe)*
	Inherent risk-focus of fixed income products	*"… it [responsibility] also helps bond investors… they are only interested in getting coupon payments on time and the principal back. It [responsibility] decreases default risk." (Rhea)*
Investment opportunity seeking	**Long-term financial outperformance**	*"… companies that have requisites to change will also perform better." (Prometheus); "… it [responsibility] also leads to better returns… for decision making, non-financial information is as important as traditional financial information." (Theia)*
Marketing and public image	**Clients' versatile demands for responsible products**	*"We are a customer service company. -- If certain responsibility issues are important for our clients, of course we account for them" (Helios); "…we can do that [satisfy the needs of all clients] in terms of excess returns, but we can never ever satisfy all when it comes to sustainability because there are so many different perspectives." (Epimetheus)*
	Public image: important but not the primary reason	*"… we don't do it [responsibility] because of that [PR], but when we are responsible, of course we want people to know about it." (Atlas)*
	Voluntary agreements: even more important than ambiguous regulation	*"… self-regulation is even more important. -- The PRI has a strong position… if I don't comply with it, it's worse than not perfectly following some new EU regulation no one asked for." (Coeus)*
Recruiting	**Recruitment and employee motivation**	*"People are everything. I wouldn't have come here hadn't responsibility been in our core. If you don't get this, you don't belong here." (Phoebe)*
Knowledge and expertise	**Learning responsible investing by doing to reap other benefits**	*"It [responsibility] is a new competence and we are all struggling with it. -- We are struggling with education." (Epimetheus)*

Table 10: Investors' organizational motives for responsible investing

"There's strong evidence that you can avoid the largest risks [with responsible investing]. Responsible portfolios are usually better because they have been able to avoid a large crash." (Oceanus)

"The idea is to find companies that can answer current and future challenges, meaning that they can avoid idiosyncratic risk, the risk that something blows up in their hands, for instance a large controversy that affects their stock price or overall ability to operate." (Atlas)

In concrete terms, as this investor states, failures to manage these short-term risks can complicate the companies' access to finance e.g. by raising their cost of capital:

"*ESG is an effective way of identifying tail risk. The risk side is important also because it lowers the cost of capital." (Theia)*

One group of investors, for which the risk view is of paramount importance, are pension funds, who have an especially explicit and strict obligation to manage the risk of their investments. As two pension fund investors state:

"We are bound by legislation to invest in a secure and profitable manner." (Leto)

"We are governed by the law; we can't do whatever we like. -- As a pension fund, mitigating risk is the most important because we can't afford to do wrong. -- You can say that this is the only reason why we do it." (Tethys)

Even though many pension fund investors mention how the official regulation does not technically bind them to invest responsibly but concerns risk management, responsible investing, in its various forms, is often a natural consequence of following these rules:

"It [the law] doesn't say that we have to invest in an ethically correct manner. But investing securely is often quite responsible." (Oceanus)

"As a pension investor, sustainability is the most important [form of responsible investing] for us. That's because our responsibility number one is to manage pension assets in the long run. To us, responsible investing means investing pension assets so that they can be used to pay pensions in a few decades. Sustainability represents this situation the best." (Phoebe)

A second group of investors that are especially risk-driven, even to a greater degree than pension investors, are investors who deal with fixed income products, such as bonds. This is natural, as bonds do not by definition have any nondeterministic upside (excluding aftermarket sales of tradable bonds). Still, as one bond investor argues, responsibility can help them in assessing the default risk of the underlying companies:

"My hunch is that it [responsibility] can lead to better risk-return profile also in bonds – as it does in stocks. If, in stocks, it leads to better valuation, it might also mean that the balance sheet of the company is in better shape… it [responsibility] also helps bond investors because they are only interested in getting coupon payments on time and the principal back. It [responsibility] decreases default risk." (Rhea)

6.1.3.3 Investment opportunity seeking

Many investors, however, also emphasize how they see responsible investing as a means to find opportunities instead of just pure risk management. In their view, responsibility can be seen as additional information that can help them find investment opportunities and yield outperformance, when compared to the situation without this information. As these two investors state, responsibility information can hence help find industry leaders who are best positioned to react to the pressures to change in the future:

"That could include any new ways to help the PMs [portfolio managers] to find new opportunities. It is not just about minimizing the risks when it comes to ESG… [it's about] finding the industry leaders who are walking the talk." (Leto)

"That depends on the portfolio manager. For instance, our Head of Responsible Investing thinks that it isn't just risk management but that companies with requisites to change also perform better. There's of course an underlying assumption here that companies that don't change are being valued differently or that regulation forces them to change. -- Our Head of Responsible Investing then seeks to find these companies that change. Other portfolio managers, in turn, might be more into risk management." (Prometheus)

Moreover, investors who talk about opportunity-creating responsibility information specifically refer to responsibility issues that are financially material for the companies:

"[The reason is] to help the portfolio managers to see material ESG issues." (Leto)

"We think that it [responsibility] can have an effect on the financial performance of the company. We seek to add value to our investment decisions from responsibility, ESG-rating, ESG-analysis, ESG-integration. That is the answer." (Mnemosyne)

Finally, similarly to the risk-focused arguments, opportunity-seeking investors also think that the benefits of responsible investing are seen in the long run:

"Based on our long-term mission, we believe that ESG issues matter. Companies don't function in a vacuum, and they have impacts on the surrounding society. Some of those are so substantial that they affect their long-term performance. That's why we do it; so that our investments can succeed in the long run." (Phoebe)

6.1.3.4 Marketing and public image

As another important motive for responsible investing along investment performance, many interviewees mention clients' and surrounding society's demand for responsibility. In practice, this motive is operationalized in many different ways. In some instances, as this investor states, investors engage in responsibility to directly answer their clients' demand for responsible financial products:

"*Then of course we also have client demand... we have to be able to answer their calls considering responsibility." (Atlas)*

Historically client demand has been the main reason for investors to be interested in responsibility, but, as these two investors elaborate, other reasons such as regulation and investment performance have nowadays surpassed them as the main drivers of responsible investing:

"I would say it started 5 or 7 years ago as client demand. More and more clients, media, NGOs were pushing us to be more interested in sustainability, corporate responsibility etc. But in the last two years I would say that the EU and other legislative bodies have woken up so now it's a form of societal push on us to be more sustainable and to be active." (Epimetheus)

"Clients do also wish and ask this [responsibility] more and more but if we didn't see this as financially relevant, we wouldn't do it." (Mnemosyne)

Nevertheless, there are still some investors, such as this asset manager specialized in passive investment strategies, that consider client demand to be their main motive for responsible investing:

"... it started when clients asked a lot about this [responsible investing]. The ESG movement was about to take off that time and we got a lot of questions about whether this is the end of passive investing – an index investor buys everything, you know. We studied whether there are so well-crafted sustainable development indices that one could invest passively through them. And we found such indices. We asked clients if they wanted this and they did... it was about fulfilling our clients' needs... in the end we are a customer service company. -- If certain

> *responsibility issues are important to our clients, then of course we apply them." (Helios)*

Answering clients' responsibility demands might not, however, be a simple task. As one investor notes, simultaneously fulfilling a great number of mutually exclusive views and demands of a large number of customers is not even possible:

> *"In order for us ... to satisfy the needs of all our 2,5M clients, we can do that in terms of excess returns but we can never ever satisfy all when it comes to sustainability because there are so many different perspectives." (Epimetheus)*

A central question of clients' preferences is whether they are willing to forgo returns for an increase in responsibility - assuming that responsible investing cannot yield better returns at least in the short run. As illustrated in these two quotes, the opinions of different investors' clients on this issue seem to diverge substantially:

> *"Clients are not ready for that; they don't accept that. If you go to a client meeting and at the beginning, they seem to be very "green" and you have certain responsible products… that yield lower returns… clients will always choose the ones with better returns. So far, that's how it goes." (Atlas)*

> *"I don't believe that a) it [responsible investing] can yield significantly lower returns in the long run and b) if it was the case that it yielded lower returns by some decimals in the long run, I think that the majority of clients would accept that." (Mnemosyne)*

In addition to fulfilling direct client demands, many investors also mention how more indirect pressure from clients and the surrounding society, i.e. general public image, is an important reason for their responsibility-related actions:

> *"If we aren't keeping sustainability high on our agenda, we are diluting our brand." (Epimetheus)*

> *"Of course, we must follow our time and have a good reputation, of course image and client acquisition are reasons, too. If someone is irresponsible, no one will take them seriously… it's natural that we are responsible." (Oceanus)*

In these case of very heavily regulated pension funds, as this pension investor notes, improving public image e.g. through the means of responsibility, is one of the few means available to differentiate from their competitors:

> *"There are really not many ways to differentiate but we think that responsibility can be one. -- There are so few things from which to get competitive advantage… responsibility is one the most important things." (Prometheus)*

That being said, many investors emphasize that even if communicating about their responsibility to the public helped in client acquisition and brand building, public relationships should never be the fundamental reason why investors are interested in responsibility:

> *"… we don't do it [responsibility] because of that [PR[38]], but when we are responsible, of course we want people to know about it." (Atlas)*
>
> *"The cosmetics come last. I am very concerned of investors that are taking this as their guiding principle. That is when you get to 'walkwashing'." (Leto)*

Moreover, may investors state that tightened regulation has been one the main drivers for them to apply responsible investing. Investors, such as these two, are especially interested in trying to anticipate how regulation evolves in the future, and how official regulation will shape the informal self-regulation of the industry:

> *"The pressure of regulation has also increased. This is crucially important as we have to be very forward-looking - when auditing starts it's too late to implement new changes." (Hyperion)*
>
> *"The third [reason] is regulation. We believe that there will be regulation around this [responsibility]. For instance, the EU will launch the taxonomy of responsible investing, which doesn't concern us directly, but I believe that it will become some sort of a global standard also for pension funds." (Prometheus)*

As one investor notes, this voluntary self-regulation driven by the industry players themselves might be even more important a constraint for investors than fully complying with ambiguous official regulation that many investors oppose and that is hard to interpret in practice:

> *"If we now went against the industry's self-regulation or the regulation that is now coming from the EU, that would be going in the wrong direction. -- This self-regulation is even more important. -- Not complying with it is much worse than if we didn't exactly follow some new EU regulation that no one in the industry really ordered… everyone understands the rationale, but they don't agree on whether it*

[38] public relations

makes sense or not. Going against things that everyone agrees on is worse. Was it then regulation or just an industry practice." (Coeus)

As the most influential example of these pieces of voluntary self-regulation many investors mention the UN Principles of Responsible investing, or PRI[39]. As these investors note, the PRI also provides them research about, insights in and a framework for responsible investing.

"*I'm not sure whether it's the chicken or the egg but… we have signed the UN PRI and hence we have promised to take this thing into account. We signed PRI because we already complied with such principles… but it provides a certain framework for us." (Atlas)*

"[PRI] functions as a holistic framework for us and has produced high quality research for asset managers. They have a good… setup in which also the signatories contribute to the research." (Theia)

6.1.3.5 Recruiting

Finally, some investors also mention motives related to human resources management. Perhaps the most obvious one of these is recruiting; being a responsibly-perceived employer by applying the means of responsible investing is seen as a competitiveness factor in the talent market. Similarly, some investors also state that to keep and motivate their current employees requires addressing the responsibility boom. As several investors put it:

"…it's important that our portfolio managers are motivated and understand these [responsibility] matters. Of course, we can also signal outside that we want to invest in people who take responsibility into account, and hence hopefully recruit new personnel with the right mindset." (Crius)

"People are everything. I wouldn't have come here hadn't responsibility been in our core. If you don't get this, you don't belong here." (Phoebe)

6.1.3.6 Knowledge and expertise

What is more, some investors also mention their need to educate their own personnel about responsibility matters. This motive seems to be more of a means to achieve other motives for responsibility: by investing responsibly, an investment organization gains knowledge and expertise on the topic and can educate its employees better. This, in turn, helps the organization apply even more advanced responsible investing practices and reap the other

[39] https://www.unpri.org/pri/about-the-pri, Accessed 8.6.2020

benefits of responsible investing. Several investors emphasize this motive quite a lot, noting how traditional business education has not really equipped their employees with enough understanding of responsibility matters:

> *"The second [motive] is the demand for education for all analysts and managers. When they went to their business schools and universities 5, 10, 15 years ago, sustainability was not in the education plan. I would also say that it's impossible to manage other people's money if you're not personally interested in this. It's a new competence and we are all struggling with it. We are struggling with education. We see that assets are turning from a base offering to a sustainable offering. We need to have a competence shift in our organization." (Epimetheus)*

> *"When I and a lot of my colleagues went to school, responsibility was not a theme. New people coming from schools are much more capable of dealing with these issues. We had to learn it the hard way. When I started in the business, the meanings of these words we're not invented. Many of these terms had to be invented in the Finnish language." (Leto)*

6.1.3.7 The relative importance of organizational motives

When it comes to motives, simply listing a set of them does not describe how investors value them relative to each other. Therefore, the semi-structured interviews were supplemented with a questionnaire in which the interviewees were presented a list of motives (see Table 11) based on the initial literature review and asked to i) give each motive a number on the Likert scale (Joshi et al., 2015) reflecting how important they feel that motive to be (in which one means not important at all and five means very important), and also ii) pick and discuss the two most and two least important motives form the same list. In total, 16 of the 18 interviewees answered this supporting questionnaire. Of these, 7 were asset owners and 9 asset managers.

The means and percentage distribution of the investors' answers to the Likert scale questions are summarized in Figures 1 and 2, respectively. Figure 3 summarizes how asset owners' and managers' mean answers differ by subtracting asset owners' mean answers from asset managers' means (hence resulting in a positive number when asset owners value the given motive more, and vice versa). The answers to the two most and two least important motives are presented in Figure 8 of Appendix G. Although the sample size of the questionnaire is rather small, the variance of the answers not very high, and both the asked questions and investors' answers to them include some level of interpretation, a few indicative findings can still be drawn from the answers.

Theme	**Reason to measure responsibility**
Risk management	*1) Managing short-term risks and price fluctuations of investments (shorter than 2y time scale)*
	2) Managing long-term existential business risks of investments such as major changes in regulation or consumer preferences (longer than 2y time scale)
Opportunity seeking	*3) Seeking exposure to certain factors while maintaining the current level of returns*
	4) Seeking exposure to factors that yield abnormal returns
Marketing	*5) Marketing investment products to existing customers*
	6) Marketing investment products to potential new customers
	7) Improving general public image
Recruiting	*8) Recruiting new or motivating existing employees*
Compliance	*9) Complying with agreements such as PRI*[40]
Other	*10) Other, which?*

Table 11: Investors' possible motives for responsible investing used in the supplement questionnaire about the relative importance of motives

[40] https://www.unpri.org/, Accessed 8.6.2020

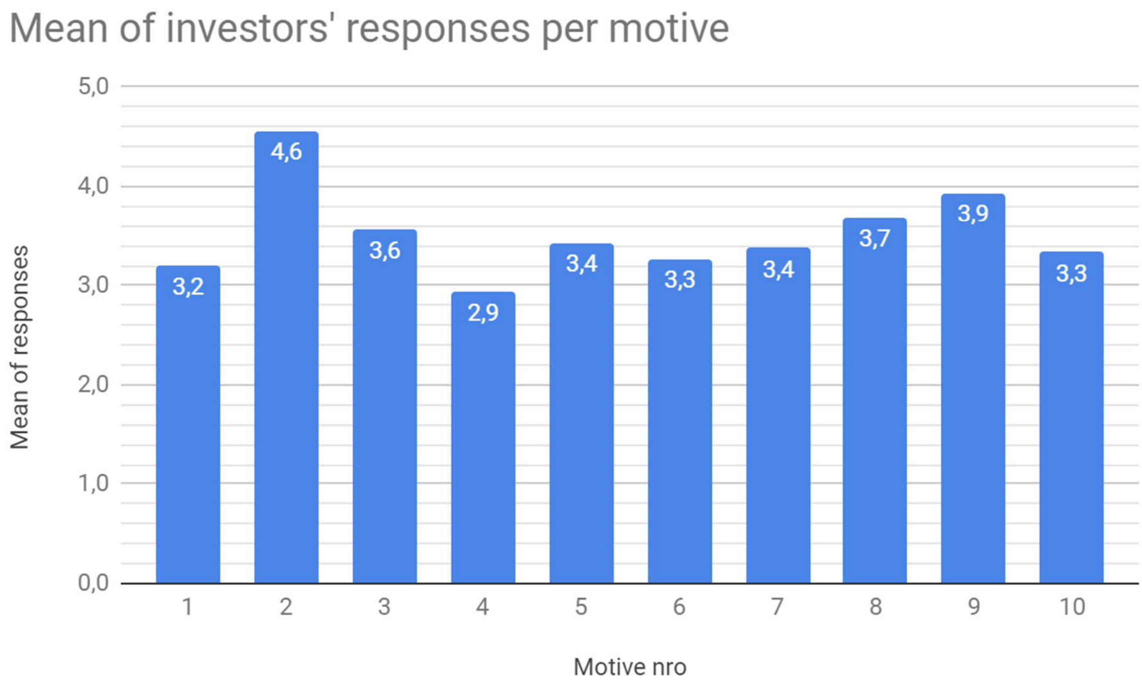

Figure 1: Means of investors' answers on the relative importance of each possible motive for responsible investing

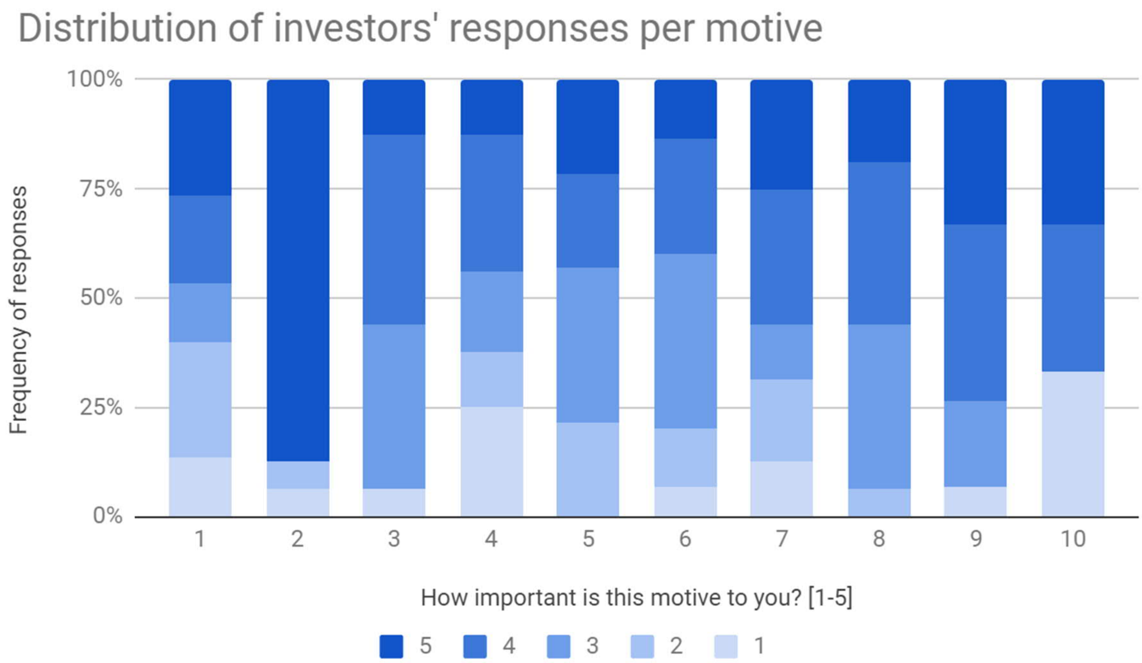

Figure 2: Distribution of investors' answers on the relative importance of each possible motive for responsible investing

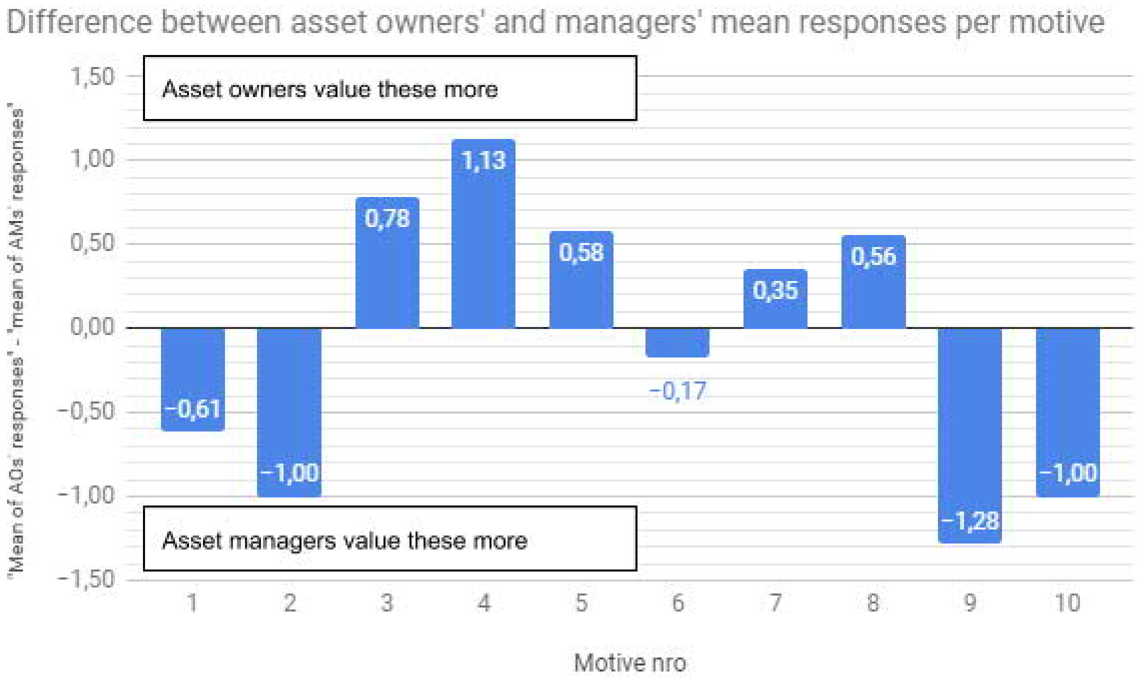

Figure 3: The differences between asset owners' and managers' mean responses

First, long-term risk management (motive 2) is seen as the most important motive. The vast majority of investors gave it a five in the Likert scale, and 68% of them placed it as the most important motive (see Figure 8 of Appendix G). Similarly, investors assessed seeking abnormal returns (motive 4) as the least important motive – as many interviewees note, abnormal returns usually mean that also the risks may be abnormal. Both findings indicate how risk management is seen as the most important motive, supporting the findings from Chapter 6.1.3.2. As seen in the difference between motives 1 and 2 in Figure 1, investors seem also to value long-term risk management much more than managing short-term risks such as stock price fluctuations and controversy events. Moreover, as Figure 3 indicates, risk management, especially in the long term, seems to be valued much higher by asset managers, while asset owners seem to value opportunity seeking, especially abnormal returns, more.

Second, legitimacy signaling through responsibility certificates (motive 9) seems to be the second most important motive, though many investors explicitly criticize this as the driving motive for responsibility. As seen in Figure 3, asset managers seem to value this motive much more than asset owners. In addition, the legitimacy signaling motive seems to be more important than other forms of motives related marketing and public image (motives 5-7), although the differences are not very substantial.

Third, the disperse answers to the questionnaire highlight the differences of investors motives. As seen in Figure 2 and in Figure 8 of Appendix G, investors are quite divided in their answers, indicating that comprehension and operationalization of responsibility varies significantly from investor to investor. Naturally, the aggregation of asset owners and managers' answers –as Figure 3 shows, asset owners and managers seem to have some categorical differences – also explains a part of the large variance in the mean answers.

Fourth, the most suggested tenth motive is rather altruistic: making a positive change in the world. Though many of the interviewees seem to be genuinely interested in contributing to a fairer, more sustainable and more equal economic development, this type of change may also help investors' businesses in an implicit way:

> *"... we as a large player must support this kind of goals... how we can allocate capital to things that to some extent 'save the world'". (Atlas)*
>
> *"Supporting fair and equal societies. That encompasses so much, it is also about societal stability. It makes life a bit more predictable and investors like predictable things." (Leto)*

6.2 How have Nordic institutional investors comprehended and operationalized corporate responsibility?

6.2.1 Comprehension and creation of responsible investing concepts

The previous chapters have laid the groundwork for understanding responsible investing practices by analyzing the societal and individual antecedents of responsible investing. As a result of the financial imperative of fiduciary duty and the tension between individual and organizational motives, a list of motives explaining why institutional investors engage in responsible investing was identified. As a logical step forward, this chapter analyzes how investors comprehend key responsibility terminology and how responsible investing practices emerge, showing how investors' motives are ultimately turned into concrete practices.

The first key finding of this chapter is that though the list of key responsibility terminology is quite an established one, investors' definitions and interpretations of the terminology differ substantially depending on the type, geographical focus, client base, mandate and product mix of the investor. Nevertheless, some rather widely accepted pieces of terminology do still exist. The historical background of Nordic responsible investing is rooted, according to many, in exclusionary value-based screens, i.e. *ethical* investing. As dominant terms succeeding *ethical,* investors mention SRI (*socially responsible investing*), which according to many also starts to be an outdated term, and *ESG*, which many consider to be the term at the moment. As more recent additions to the terminology, responsible investors have started using the terms *sustainable, engagement* and *impact*.

Second, the chapter also discusses how the key terms and practices are not just comprehended but also created. This means that especially client-facing asset managers and 3rd party responsibility analysis and rating agencies serving the investors are incentivized to come up with new and reframe old terms and practices even though the underlying understanding of responsibility might not have changed that much.

Nordic institutional investors comprehend the concept of responsible investing in many different ways. For instance, large universal owner-type long-term asset owners and smaller retail client-facing asset managers have quite different approaches to responsibility. Though there some attempts to standardize the terminology which exist, such as the GRI Standards for sustainability reporting[41], a quote from one investor summarizes the clarity of the terminology quite well:

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[41] https://www.globalreporting.org/standards, Accessed 8.6.2020

> *"All research on this topic is welcomed because all terminology related to this is so damn unclear." (Rhea)*

In general, the ambiguity of definitions is a result of two distinct factors. On one hand, investors use different terms when referring to more or less the same conceptual ideas, on the other hand they might also use the same terms while referring to distinct underlying concepts. A case in point of this is the term *responsibility*. This thesis uses it as an umbrella term referring to all sorts of concepts related to corporate responsibility and sustainability. Most investors, however, associate it more narrowly to ESG, or the environment, social and governance factors:

> *"That's how you could define responsible investing in general: one takes the environment, society and good governance practices into account to get better risk-adjusted returns." (Coeus)*

This common definition contains multitude of different underlying assumptions. Though the term *responsibility* is here understood to be something distinct from and additional to just looking at the financial bottom line, many still point out how it ultimately reflects the most fundamental responsibility that companies have in current capitalistic systems – the responsibility of financial outcomes to their legal beneficiaries or the *fiduciary duty*. As two investors state, taking responsibility (in their language the ESG factors) into account, is thus nothing extraordinary for investors who seek to fulfill the mandate:

> *"Our responsibility as asset managers is to yield our clients sustainable long-term returns regardless of what factors that sustainable potential consists of. And it's been proven that ESG factors can affect companies' financial situation. -- From that point of view, it's just good investment management. On the contrary, one could say that if we didn't take these factors into account, we wouldn't follow our mandate and could miss some market opportunities." (Crius)*

> *"It's the duty of a portfolio manager to analyze all possible factors that can affect risk-adjusted return. If your task is to find the best risk-adjusted return for the clients, it doesn't matter a tiniest bit whether the data comes from responsibility matters or Germany Manufacturing Purchasing Managers Index." (Helios)*

The importance of fiduciary duty is amplified in the case of pension funds, which, obliged by the law, are bound to meet a certain return target (while still complying with strict solvency regulation). In the Nordics, pension funds act as semi-governmental institutions safeguarding a basic service of the welfare state: pensions. Therefore, many interviewed pension fund asset owners emphasize how responsibility must be applied in a manner that increases returns – conversely meaning that in case of a contradiction between returns and responsibility, the former must be chosen:

> *"We have a great responsibility: to take care of the ability to pay pensions in the long term, which isn't that easy considering current expected market returns. If we can't meet our targets, pension capital is gone in 30 years. -- Responsible investing must thus support this mission, not decrease returns in any manner. We have to try combining these two goals as well as possible." (Phoebe)*

Some investors, however, challenge this view that presupposes a widely accepted definition of responsibility and focuses particularly on the responsibility of investments instead of concentrating e.g. on the marketing and governance practices of the investment firms:

> *"What separates us from others is that we don't even try to claim that our [financial] products would be best for everyone or the most responsible. -- If you have clear own criteria for responsibility, we as asset managers try to provide you as tailored a portfolio as possible to fulfill those criteria. -- For those without strict criteria, we try to explain how diverse and definition-intensive the field [of responsible investing] is." (Helios)*

In addition to term ambiguity stemming from differences in how investors comprehend responsible investing, the terminology is also changing rapidly, according to many investors. Most mention that term *evolution and erosion* – the creation of new terms and new meanings for existing terms that replace old and obsolete ones, that is – have been especially rapid during the past 10 years. As one key aspect igniting the interest in responsibility matters, many investors mention the UN PRI, or Principles of Responsible Investing[42], which were created by the initiative of then UN Secretary General Kofi Annan in 2005, and according to many investors, really kicked in in the Nordics about 10 years ago. Emphasizing the magnitude of this change, many investors even state that responsible investing is the new normal:

> *"It [responsible investing] has come here to stay. -- It's a license to operate nowadays." (Mnemosyne)*

Many investors also highlight how the importance of taking responsibility into account increase the more long-term-focused the investor is:

> *"5 or 10 years ago one had to accept lower returns when investing for the people and the planet. But we are convinced that there's no contradiction between taking*

[42] https://www.unpri.org/, Accessed 8.6.2020

> *various sustainability issues into consideration and generating returns, especially for a long-term investor such as us. The only way to make stable returns in the long run is to make investments that are sustainable. We don't do short-term speculation. We only invest in the really really long term because our investment horizon is from here to eternity." (Tethys)*

When asking for reasons why the terminology of responsible investing changes so rapidly, most investors state that our economic systems are being challenged by many systemic and *wicked* problems, and our ability to access and distribute (mis)information is also increasing. Quite interestingly, some investors do also note another, perhaps a less obvious reason for the term evolution and erosion. Different kinds of responsibility consultants and data providers constantly reinvent the terminology to sell their new services, which in this case, in a self-fulfilling way, also shapes how the whole industry comprehends and practices responsibility. As multiple investors state it:

> *"Currently, it's very lucrative for different service providers to provide ESG data… because it's a massive theme with a lot of demand. They are keen to show us models which show how data looks different at the moment than three months ago. They create an illusion that this type of frequent ESG data would be necessary while these [responsibility] issues are actually quite long-term questions." (Coeus)*

> *"This is an industry that develops constantly, partly because consultants of the field invent new terms to get publicity for their own services." (Helios)*

Moreover, a healthy degree of skepticism is also needed when trying to evaluate the reality behind investors' own statements about their responsibility. Some asset owners, who intrinsically can take a more long-term oriented view on their actions and who do not either have direct incentives to please or sell to any direct clients, point out how especially asset managers tend to focus on communicating their "responsibility" rather than actually trying to become more responsible. As illustrated in the comments of two asset owners, the main motive for many investors like these seems to be to just enhance their image of responsibility – which also makes it hard to study their actions by interviewing them:

> *"To some extent, you have to be a cynical pessimist to be able to study this topic. There's lots of greenwashing in the industry; both companies and people talk bullshit and do something else." (Prometheus)*

> *"There's a lot of greenwashing in the whole financial industry. You cannot find players who would claim to be irresponsible. The only acceptable answer is to emphasize responsibility. -- Lack of examples on made and passed investment*

> *decisions based on responsibility criteria reveal very quickly whether this [responsibility] is really a part of their everyday activities." (Cronus)*

Keeping these reservations in mind, it is still possible to analyze the claims made by the interviewees, if not as objective truths about their concrete actions, then at least as artefacts reflecting their views and underlying motives about responsible investing.

An excellent example of this context and culture-dependency are the geographical differences in comprehending responsibility. As many investors point out, many concepts are somewhat universally understood but their internal details and relative importance vary. As discussed above, most investors see fiduciary duty as their ultimate responsibility as investors. Hence the local interpretation of fiduciary duty greatly affects how responsibility is understood in that geographical region. As one investor elaborates the distinct characteristics of the Nordics in this sense:

> *"They [Nordic investors] also appear unencumbered by narrow constraints around the interpretation of fiduciary duty - the duty of trust which exists in every European market but is interpreted in different ways. -- Within the Nordics, investors are less encumbered by this and are more than able to avoid investment in certain types of companies or prefer investment to certain types of companies without risk of lawsuits around the financial consequences of such decision-making. It's a very traditional approach or interpretation. -- In the UK, there's a narrower, financially-oriented and short-term definition of this which deters certain types of investors from getting involved." (Themis)*

Another example of a generally accepted concept that still yields different actions due to differences is *ethical investing*. When applying it, a set of ethical criteria, often heavily based on the dominant religious value base of the region, are used to exclude or include investments from the portfolio. For example, the Protestant values of the Nordics and the Catholic values of Southern Europe yield quite different types of ethical investments. Another example of values-driven investing is a branch of financial products under the label *Islamic finance* (Uusmani and ʻUs̲mānī, 2002). Similarly, the relative weights of the ESG factors are considered differently in different regions:

> *" -- even just in Europe, we have a substantial South-North divide. The Catholic investors of the South don't accept anything related to abortion. For them it is even one of the most important of [ESG] S-components. Here [in the Nordics] no one even mentions abortion when discussing [ESG] S-components – and if one did, it would likely be seen as a positive thing. -- US investors emphasize diversity a lot. In Europe it's mostly associated with companies' own CSR work but investors look*

> *at it less. -- And if you look really globally, the criteria of Western and Islamic investors vary a lot." (Helios)*

Similarly, a quote from one investor elaborates how the most common denominator among all European investors is their inability to fully agree on the key terminology:

> *"There's no clear difference [in defining terminology] between the Nordics and rest of Europe - everybody is quite confused." (Themis)*

6.2.2 Responsible investment practices

6.2.2.1 The debated nature of practicing responsible investing

As discussed in the previous chapter, corporate responsibility is defined and interpreted in many different ways by different investors. It's therefore natural that the practices of responsible investing, the topic of the following chapters, also provoke fierce debates. As with the key terminology of responsibility, there exists an established list of practices: responsibly-themed products and *best-in-class inclusionary screening*, *ESG integration*, organizational operationalization of responsibility (responsibility function in the organization), *exclusionary screens* (ethical investing), *engagement* and *impact investing*. But similarly to the key terminology, there is also a lot of debate about these practices. Hence, the key practices are listed below in table 12 in a format that presents arguments both for and against the given practices.

As key findings, almost all interviewed investors have specific products labelled as responsible and organizational roles that are responsible for responsibility. The main counterargument for both practices is that they silo and superficially dichotomize responsibility from "ordinary" investing – which itself may prevent truly responsible practices from emerging. *ESG integration* is another practice very widely used, but also criticized by many to be just a superimposed marketing gimmick laid on top of existing practices and processes. The most traditional form of responsible investing, *exclusionary (ethical) screening* is widely criticized for being inefficient and hypocritic as its real-life effects for responsibility may be very limited. Still the practice is used to some extent by almost all investors. *Engagement* (active ownership) is proposed as a better alternative for exclusionary screening but also criticized for being too soft to really make significant responsibility impacts. Finally, many see the emerging practice of *impact investing* as the most advanced form of responsible investing. Though few investors use it widely, its definition is heavily debated, and some criticize it for creating the same false dichotomy as responsible-themed products and responsibility functions in the organization.

Debated practice	Rationale	Counterarguments
Responsibly-themed products and best-in-class inclusionary screens	Meets internal goals or clients' demand on thematic exposure.	Reinforces the false dichotomy that only some investments are related to responsibility while the vast majority are not.
ESG integration	Integrates responsibility to all investment decisions.	Superimposes layers of responsibility marketing and communications on top of existing processes and strategies.
Responsibility function in the organization	Ensures that responsibility is properly taken into account in all actions.	Siloes responsibility away from actual investment decisions.
Exclusionary screens	Categorically excludes certain industries (ethical screening) or companies that violate international norms (norm-based screening).	Divides investments to good and bad in a very black-and-white manner. Walks away from problems instead of trying to solve them. Industry exclusion does not incentivize excluded companies to change.
Engagement	Drives positive change (and returns) by applying means of active ownership.	Acts as an excuse to keep investing irresponsible companies, especially when a tiny minority owner applies this to large liquid companies.
Impact investing	Seeks measurable additional positive societal and/or environmental effects through investments.	Reinforces the misconceptions that only some investments have an impact and that impact cannot be negative. Used misleadingly when criteria of additionality or financial outcomes' dependency on non-financial measures aren't met.

Table 12: Key debates related to the most common responsible investing practices

6.2.2.2 Responsibly-themed products and best-in-class inclusionary screens

The majority interviewees have funds or other financial products, labelled as responsible. Though all aspects of the ESG framework are present in these thematic products, the environmental dimension seems to be acknowledged the most. As an example, the sample of interviewees mentions specialized funds for climate-friendly, low carbon industry-focused, water-saving and plastic pollution-alleviating investments. As two investors put it:

> *"Maybe the easiest, and no pun intended, hottest [aspect of responsible investing] is climate change." (Helios)*

> *"For us, climate change is more important an area than others. And we think that climate change will lead to a change in global resource use and we will have a direct impact on our portfolio. Therefore, we have chosen to focus especially on climate impact by adopting a series of targets: up to 2025 we want to halve the portfolio carbon footprint and double our sustainable investments." (Tethys)*

Another popular way of creating these thematic products is to choose the top performers of some aggregated responsibility measure. As an example, *best-in-class ESG investing* is applied by inclusively screening companies that meet a certain level of ESG performance or are top performers in these scores. This approach emphasizes opportunity seeking over risk mitigation reflected in exclusionary screens, and as one investor puts it, also creates more realistic incentives for irresponsibly-deemed companies to change their behavior than e.g. sector-based ethical screens:

> *"All our portfolio managers are measured against an ESG benchmark. And the benchmark we use does not mean excluding sectors, but we take the top 50%. We think that it creates a healthy competition. The companies that do not get in have motivation to improve their operations to get into the index. If we just excluded sectors those companies would have no incentive at all to change." (Leto)*

6.2.2.3 ESG integration

While most investors have these thematic products, even more important an actualization of responsibility in their investment practices is the integration of responsibility considerations into all investment decisions, idiomatically referred to as *ESG integration*. In essence, this means that even though a given financial product would not explicitly be labelled as responsible, it still reflects many elements of responsible investing. That is, the ESG factors are taken into account in all investments, regardless of their theme or label. Naturally, as many investors note, this does not mean that all investments of a given investor would have the same responsibility criteria but that these factors are considered as a standard part of all investment strategies' decision-making process.

Both thematic labelling and distinction of responsible products, and the integration of responsibility matters to all investments, have their critics, too. Still, how good the underlying aims of both these practices were, they might cause more harm than good in terms of changing the industry towards actually more responsible practices. As one investor puts it, this separation of responsible and "non-responsible" (not explicitly irresponsible but just not framed as responsible) itself spreads an illusion that only some investments would be related to responsibility issues:

> *"-- there's nothing else outside the ESG bucket, everything is sustainability and responsibility. That's not something separate from investment, that is investment. Responsible investments are the market." (Themis)*

ESG integration, though not itself enhancing the distinction to "responsible and other investments", is also criticized heavily by some investors. Namely, they accuse ESG integration of being mere superimposing of marketing and reporting-focused layers on top of existing investment processes without really changing the investment philosophies to be intrinsically driven by responsibility:

> *"Many global funds have existing investment processes, products and strategies in which they have invested billions and billions. ESG integration is then about creating layers on top of what exists. An instance that has been creating the previous [practices] is not willing to change them because then what it has historically had would lose its meaning. A rough simplification but this is how it approximately goes. -- While a company currently spends time on this ESG investor communications, asset owners and we [asset managers] should be interested in what the companies actually do. Instead of having a reporting dimension at place all the time, we should look at what kind of a holistic societal impact our portfolio has." (Iapetus)*

6.2.2.4 Responsibility function in the organization

Moreover, almost all interviewees do also have distinct people assigned to take care of responsibility matters. Analyzing this "organizational operationalization" of responsibility based on a rather small number interviews is not an exhaustive method to study investors' attitudes on responsibility as it might be more about coincidence that certain people (of the huge number of people working for these large organizations) with certain titles are being selected in the sample; or as one investor puts it, the titles might be in place for mere historical reasons:

> *"We also seldom use the term ethical. It is included in the Ethical Council's name but that's more due to historical reasons and we have actually discussed that we should change the name." (Tethys)*

Nevertheless, looking at the list of interviewees (see Table 7 and Table 18 of Appendix E) one can at least get some indication of how these investors have arranged their responsibility investment matters. First, one can see that ESG and responsibility are clearly the most common expressions used to refer to responsible investing. Second, quite a many of the interviewed investors had also assigned their top leadership or heads of investment management to oversee responsibility matters. As many investors stated, this signals a deliberate effort not to silo responsibility to distinct responsibility departments which would fight against the very idea of integrated responsible investing:

> *"The portfolio managers that are doing a lot of the ESG work, we [responsibility specialists] are just helping them. That is why we do not have a big ESG team. I never wanted them to be separate. The actual ESG work which is the integration has to come from portfolio managers." (Leto)*

> *"Often there's an ESG person or a team that isn't really related to the investment activities. It's dangerous to become siloed and it's often exactly the marketing department for whom the investment decisions are unknown. -- When we are at the point that responsibility is a part of our investment process, I don't understand why should anymore have separate people [for responsibility and investments]." (Mnemosyne)*

6.2.2.5 Exclusionary screens

As discussed in Chapter 6.2.1, *ethical investing* is deemed to be an obsolete term. According to many interviewees, this rule-based exclusionary strategy is the oldest form of responsible investing from which other strategies have evolved over time. Many also state how in the Nordics, traditional ethical investing was strongly affected by the commonly shared values of Nordic societies, such as dogmas of the various protestant churches. As several investors note:

> *"This started from ethical investing 20-30 years ago. Ethical was about excluding companies and industries. It's easy but suits better for instances with a single unified group [of beneficiaries]... like the [Finnish Protestant] church... but if you think about our beneficiaries, you have quite a variety of ethical views." (Phoebe)*

> *"Ethical, it's a dying dinosaur. It started based on exclusion in the '80s and '90s." (Epimetheus)*

Despite judging ethical an obsolete term, and explicitly stating that they do not use the term, practically all investors still have exclusionary screens in place. That is, they filter out certain industries – many mention a generally used list of "sin stock", such as tobacco, guns, gambling and adult entertainment – and exclude firms that violate international norms related to e.g. worker and human rights, often referred to as *norm-based screening*. As one asset owner states, this forms a minimum baseline of responsibility for most investors:

> *"We have this minimum standard for all our investment and that's a norm-based view. It's not enough for companies that we invest in to follow international legislation but also international norms." (Leto)*

6.2.2.6 Engagement

As opposed to excluding certain companies or industries from one's portfolio, many investors think that the ethos of responsibility is much more effectively driven by doing the exact opposite: investing in the irresponsible companies and using their power as owners to make these companies more responsible. This active ownership, usually referred to as *engagement,* is preferred by many investors. On one hand, it is seen as an effective strategy to boost investment performance (assuming a private equity-like thinking in which firm valuations can be increased by actively helping the firms become more responsible in the eyes of the market) and on the other hand it might be much more effective in terms of promoting positive changes in the world:

> *"If we see that there are [responsibility] faults in a firm… our approach is to engage with it rather than sell it because trying to fix the fault has a positive net effect for both real life impacts and investment returns." (Phoebe)*

> *"You can ask whether the world changes for the better when you walk out from problems. Eventually the firms will move to someone's balance sheet – to a "worse" balance sheet that doesn't care even a tiny bit. There's an implicit assumption in responsible investing that when a Finnish pension fund walks away from a badly behaving investment, the world changes for the better. Perhaps then when no one owns it anymore." (Cronus)*

In terms of the different ways of being an active investor, the interviewees mention a variety of different means. Naturally, significant ownership gives investors power to vote in e.g. annual general meetings to make firms act in certain ways and choose certain people for management and board positions. In addition, powerful enough investors can also pressure firms in more informal private discussion outside formal shareholder meetings. Alternatively, investors can also augment their own actions – or even engage with companies without actually owning them at all – by indirect means. For example, they can try affecting the public opinion and social norms by sending public open letters and using the media to pressure companies, or even lobby legislators to change relevant regulation to force companies to act in certain ways.

Some investors claim that the Nordics, despite their widely accepted image of superior responsibility, are lagging in this engagement trend mostly due to very strongly historical ties with ethical exclusionary screening:

> *"Traditionally the Nordics, particularly Sweden, and to some extent Denmark, I think, had an approach that was largely done in an ethical root. So there's a long tradition of excluding certain kinds of companies from investment and that was presented as responsible investment. That is no longer sufficient. -- The Nordics sees itself as very sustainable but there is a simplicity to that. -- If you just choose to stay out of that and say avoid investments in oil companies, you are not really part of the solution. -- You cannot step outside the system; you need to understand that you are part of it. Then the task is to engage the system to change it." (Themis)*

Engagement, however, is also accused of similar hypocrisy as divestments by many investors. These critics argue that current forms of engagement are simply too soft and ineffective to really make any real changes, and hence engagement can be used as a greenwashed excuse to keep investing in irresponsible companies. For example, the ownership stakes that even the largest Nordic investors have on, say large oil corporations, are too minor to really help engage with the company with the aforementioned ways:

> *"It feels to me that for large investors the main way [of applying responsibility] is nowadays to join initiatives fighting against large oil companies. -- It shouldn't be the main headline on your web page that you are engaging an American oil company worth of 300B with an ownership worth of 1M. Partly it is an excuse to keep these firms in your portfolio. But I don't of course undermine the power of these initiatives at all, there's so much money and people behind them." (Prometheus)*

In addition, some investors even note that actual responsible-first activist ownership is impossible if returns and fiduciary duty are to be considered. As one investor puts it, actually engaging with companies in a way that would maximize positive responsibility effects would destroy businesses and hence be very bad as an investment strategy:

"Engagement doesn't have an effect as long as it is soft engagement as it now is. It's not hard to imagine a scenario where a large and really hard core ESG investment fund would start behaving like a traditional activist investor. For example, taking over a company with a large number of coal power plants and shutting them down, that is. But what then? What happens to the fund in that case? This is the reason why ESG engagement is soft and not hard core." (Helios)

6.2.2.7 Sustainable and impact investing

As said, most investors use responsibility information like any other additional data that supports their decision making aimed at achieving better risk-adjusted returns. However, most of them still think that investing responsibly means that one has some other goals than the profit motive, too. This connotation of non-financial goals seems to be especially true for practices labelled as *sustainable* and *impact investing*.

Though many interviewees admit that the former, *sustainability,* is often used interchangeably with *responsibility* especially in everyday language, most still have distinct connotations for both. Whereas responsibility is associated with being responsible to some parties, were they then shareholders or more inclusive groups of stakeholders, the majority of investors agree that sustainability has to do with promoting the long-term resilience and sustainability of a system or a process. For a few investors, this relates to financial connotations related to sustainable returns over time. The vast majority, however, associate sustainability with alleviating or solving the most pressing problems of our time, often referring to the Sustainable Development Goals set by the UN.[43] Quoting the definitions of two investors:

"Sustainability: future generations must have a chance to fulfill their own goals." (Theia)

"Sustainable is about continuing and sustaining and it's related to sustainable development." (Helios)

The latter term, *impact investing*, seems to have in turn the strongest connotation of all responsibility concepts with non-financial goals. Quoting two investors, impact investing requires that the investment creates measurable positive social or environmental externalities that, in case of conflict, override the financial goals:

"Impact investing is specifically about seeking a desired positive social or environmental impact. -- In a way you seek for impact in addition to returns... but

[43] https://sustainabledevelopment.un.org/?menu=1300, Accessed 8.6.2020

you cannot call something impact investing if the starting point wasn't impact or you cannot measure it." (Atlas)

"Impact, you hear about it a lot but we don't really use the term. – Impact is even activism... that you really act responsible-first, not returns. In the end, our task is to secure pensions in a responsible way so we cannot really separate those two. It might be that our definition is wrong but for us impact means that responsibility is more important than returns. – It [impact] is an idiomatically loaded term. Our organization thinks that it is a purer version of responsibility." (Prometheus)

There is, however, a considerable amount of debate about the correct definition of impact investing (see Chapter 4.1.5.). To some investors, only impact bonds, from which the impact movement according to them also started, can be considered as impact investments. As one investor explains, these (social) impact bonds are in essence financial securities whose returns are directly tied to the success of a given non-financial goal:

"Originally it [impact investing] meant that an investor's return depends on a measurable improvement of a given issue. If e.g. the predetermined measure improves by 15%, the investor is rewarded according to that, but otherwise he or she is not rewarded. Now it [the definition] has been stretched like a rubber band. When you buy a stock of a listed wind power company, the least scrupulous will call that impact investing." (Mnemosyne)

Some investors, on the other hand, think that impact investing has to do with investments that create *additional* changes, meaning that the desired effects wouldn't have happened without them. According to this view, investing in (or divesting) liquid stocks of listed companies cannot really be considered as impact investing while e.g. capital issuance and engagement can:

"Maybe a good term would be change investing: that you create a positive change and that change must be a lasting one. -- In practice this [additionality] means that your investment directly causes the change or effect, and without your investment that wouldn't happen. Then you can ask whether one can be an impact investor by investing in listed stock. According to the traditional definition, that's not possible because your decision to invest or not to invest doesn't cause any changes." (Atlas)

"There's a lot of confusion about impact. -- But impact in public equities has become the impact of the companies with the investor claiming the impact. Clearly if you buy a share in a secondary market, it's a transfer of ownership. It's not your

impact just because you happen to own an oil company having bought the shares from someone else. That doesn't mean you're somehow responsible for the impact. You might be responsible for the moderation of it through your engagement with the company. That's true impact: how you behave as an owner. -- Some investors in the Nordics and the rest of Europe are offering impact products in public equities where they claim the impact of the companies as the impact of the investor and I think that's quite dangerous." (Themis)

Some investors counter this argument by stating that every decision, including decisions not to do something, do have an impact. These investors also criticize other definitions of being too focused on positive effects – according to them a negative effect is also an impact:

"Everyone has an impact. Whether they are positive or negative or neutral depends on the investment situation. One has to understand that investing in something has an impact, not investing might as well." (Leto)

6.2.3 Responsible investing measures by 3rd party rating agencies

6.2.3.1 The interplay of responsible investors and 3rd party responsibility raters

To implement the practices presented in Chapter 6.2.2, investors must be able quantitatively measure the responsibility of their investments. Responsibility measures like these are almost always created by 3rd party responsibility analysis and rating providers. There are two main reasons for this: on one hand, the complexity and required expertise to conduct the analyses is often high; on the other hand, giving responsibility ratings for companies and other investment targets is very burdensome and in most instances requires a significant amount of manual labor. Therefore, investors are somewhat dependent on the data and services provided by these 3rd party agencies. The rating agencies, in turn, are also dependent on the investors in the sense that they must be able to sell their services to the investors.

This chapter discusses the creation and characteristics of responsibility measures that investors eventually use when implementing their responsible investing practices. The key finding of the chapter is, as briefly explained above, that measuring responsibility is a result of mutually dependent relationship between 3rd party agencies creating the measures and investors paying for and using them. The relationship seems to be somewhat analogous to the one between credit rating agencies and lenders. In addition, this chapter also discusses in detail the various ways in which 3rd party agencies help investors in implementing responsible investing.

When it comes to the 3rd party providers, the interviewees identify MSCI[44], a financial data provider spin-off of Morgan Stanley, as the clear market leader. In total, 14 out of the 18 interviewed investors mention using MSCI's services, and also those not using their services recognize them as the market leader. Though most investors mention using particularly MSCI's ESG ratings, many are not willing to explain in detail exactly what components of MSCI's wide variety of responsibility analysis offering they are using.

Other widely used providers include Sustainalytics[45] (9/18 mention using), ISS Oekom[46] (7/18 mention using), Bloomberg ESG[47] (4/18 mention using) and CDP, the Carbon Disclosure Project[48] (4/18 mention using). Of these, Sustainalytics and Bloomberg ESG are used – or as said, explicitly disclosed as being used – mostly for traditional ESG analysis, while ISS Oekom seems to be a popular choice for particularly norm-based screening and proxy voting. CDP (Carbon Disclosure Project), on the other hand, is solely focused on environmental issues, and according to many investors, is the highest authority regarding environmental corporate responsibility (see Figure 4 for a summary of top five providers used by investors).

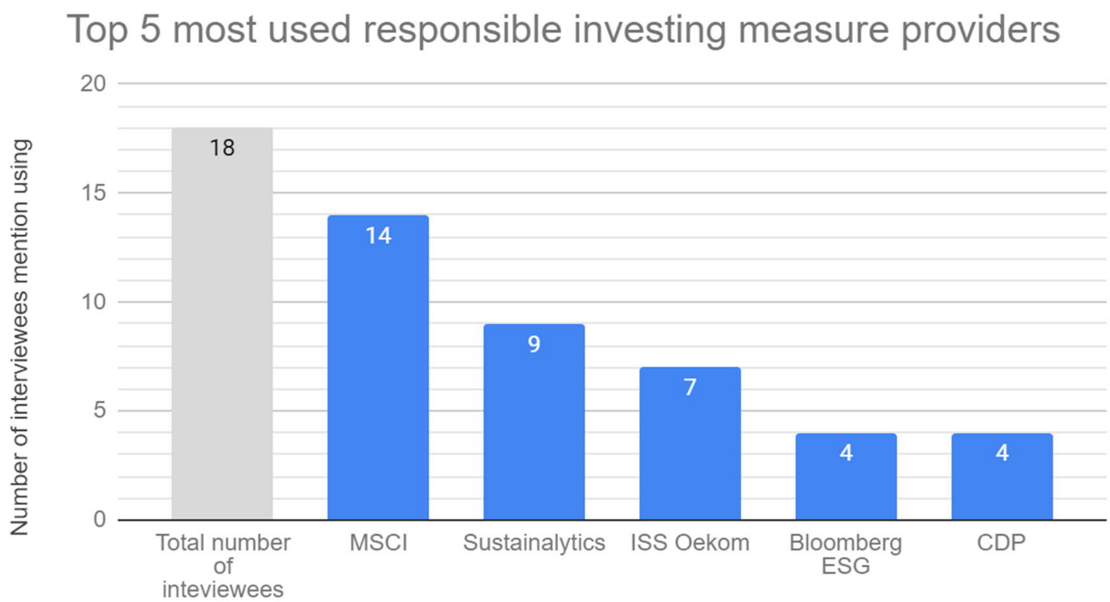

Figure 4: Top 5 most used responsible investing measure providers

44 https://www.msci.com/esg-ratings, Accessed 8.6.2020
45 https://www.sustainalytics.com/, Accessed 8.6.2020
46 https://www.issgovernance.com/esg/, Accessed 8.6.2020
47 https://www.bloomberg.com/professional/solution/esg/, Accessed 8.6.2020
48 https://www.cdp.net/en, Accessed 8.6.2020

Moreover, some investors also mention using smaller, emerging providers to gain insight into special responsibility matters, as opposed to just assessing general ESG factors. As examples, investors mention Maplecroft[49], which provides data about geographical macro ESG risks, Influence Map[50], specializing in the political lobbying activities of companies, and The Upright Project[51], focusing on a holistic net impact assessment of companies. A full description of which providers the interviewed investors mention using can be found from Table 15 of Appendix A.

Practically all interviewed investors use the help of 3rd party responsibility data and service providers when applying their responsible investing strategies in practice. According to the interviewees, 3rd party instances are used in four different use cases: investment decisions, investment execution, engagement with companies through means of active ownership, and in marketing and client reporting.

The first and perhaps most evident use case, investment decision making, means in practice that investors use responsibility-related data from 3rd party providers to support their decision making. Usually this means feeding the responsibility data, such as ESG scores, to their investment decision making process – in a similar manner as other externally provided data sources are used. The degree to which investors use their own judgment and modelling of responsibility matters depends on the investor and the products and portfolios they are creating. For example, many investors have products where they apply active investment management and use responsibility scores as raw source data:

> *"We use several different service providers to measure responsibility. -- It's important to emphasize that we don't make investment decisions based on any single provider's data or even based on the combined raw data of all providers. Instead, we have created our own ESG evaluation model which uses this 3rd party data but seeks to commensurate it with the help of a standardized ESG framework." (Crius)*

In some instances, as for example in many passive investment strategies, investors rely directly on the data provided by the 3rd party providers and e.g. buy responsibly-themed indices that include or rank companies based on their responsibility scores. As one investor states:

[49] https://www.maplecroft.com/ Accessed 8.6.2020
[50] https://influencemap.org/ Accessed 8.6.2020
[51] https://www.uprightproject.com/ Accessed 8.6.2020

> *"We buy indices directly. -- We don't buy ESG data for investment decisions, but we buy it as a service in a way that someone else has used the data to make the choices." (Helios)*

What is more, many investors also note how it is very hard, perhaps not even possible to fully automate the whole responsibility assessment of investment decision making. Hence, they use a hybrid methodology in which the most simple and straightforward parts are automated or directly purchased as a service from the 3rd party providers, but more complicated issues are analyzed manually in a case by case manner:

> *"Hard cases are analyzed manually. Rating agencies' data is used to analyze easier ones. We do have done some modelling internally, but data-driven decision making is not yet possible due to bad quality of rating agencies' data." (Hyperion)*

In addition to investment decisions, some investors also use 3rd party providers' data for marketing and client reporting purposes. That is, their primary motive to use responsibility data comes from their internal or clients' need to understand responsibility aspects of the portfolio. As one investor tells:

> *"We take data for all sorts of reporting. But we don't buy ESG data for investment decisions. -- Then we use Sustainalytics' data through Morningstar and sometimes we have used CDP [Carbon Disclosure Project] data. -- Our measures are client-specific. When a large client wants reporting according to certain measures, then we use those measures. And we try to modify the client's portfolio to be as good as possible on those measures." (Helios)*

Often, however, this usage of responsibility data – even in the as-a-service use case – doesn't mean that the investors would use responsibility as the only criterion and invest solely based on that. Though investors, as this one, might not derive any own responsibility scores from the provided data, they do use human judgement when making the final decisions:

> *"We use data simply as given; we haven't derived any own scores from it. Investment managers then conduct analyses and interpret what we have got with this [purchase of responsibility data]." (Eos)*

This argument about human judgement's importance is widely shared by investors. Most of them agree that the responsibility data provided by 3rd party instances cannot be blindly trusted, but one needs to conduct own analysis when using this data. As one investor says, using ESG data is similar to using data from external brokerage research service providers:

> *"We use [responsibility] ratings from multiple external organizations. Do we believe and trust in these blindly? No. We do not agree with the outcomes all the time. But the same goes with brokerage research. That's the whole point of the investment world, it's a data game. You take data from various sources and you make up your own mind."* (*Leto)*

However, many investors note that not trusting 3rd party providers' data blindly is a more multifaceted an issue that it might seem at first glance. They admit that different responsibility measures created by the 3rd party providers do not really correlate, and do not consider the measures to be very reliable, but note that one key reason for this is that many measures do not even try to answer the same question. In other words, one cannot really complain about divergent outcomes if one does not understand that the questions that the measures seek answering are different. As multiple investors state:

> *"Why should ESG analysis be so that you just insert the numbers and every [provider] gives you the same result? That's exactly when the service provider creates added value when it analyses the data makes implications based on a strict methodology. It's up to the investor how it's being used. It's frustrating to always hear people complain that all ESG ratings are different. Of course they are, as the [rating] firms, methodologies and analyses are different. Would it then make sense that you would have five different service providers who provided exactly the same ESG ratings?" (Atlas)*

> *"If you look at the [responsibility] score of a given company from multiple providers, they don't tell the same story. But that doesn't mean that one of them would be right and the other wrong – they have different methodologies and they weigh different things in different ways. To be able to take ESG factors into account in one's investment decisions, one must also take ownership of the analysis and understand from where the measures come and what do they seek [to measure]." (Crius)*

In addition, many investors do also think that too hard critique against 3rd party providers' measures is not justified as the industry (of responsibility data) is still somewhat immature and has nevertheless taken steps towards the right direction. As one investor also puts it, the rather mediocre reliability is understandable as investors have just recently become interested in the theme and hence the funding for responsibility research has only recently ramped up:

> *"Considering circumstances, they are fairly good, and they develop constantly. There's a virtuous cycle here; a couple of years ago investors weren't ready to pay*

> *for these, service providers didn't really have interest to put effort on developing them, and companies weren't motivated to think about what data to report. -- [Currently] investors are willing to pay, there's more competition among raters – though they are constantly consolidating – and they are motivated to create better data as they know that the whole "value chain" wants it. Once again, money motivates." (Mnemosyne)*

Though the help of 3rd party providers is mostly used when making investment decisions, and occasionally also in marketing and client reporting, many investors utilize the providers in executing investments and active ownership strategies. While transaction execution is rather self-explanatory, the latter, engagement service provision, perhaps needs some elaboration. In practice, this works in a way that investors give their more or less exactly defined mandate, based on which the 3rd party providers then execute the engagement. Perhaps the most common service used is proxy voting, which replaces the need to be physically present in shareholder vote meetings with a digital remote voting system. As two investors elaborate:

> *"So, we have the responsibility to coordinate engagement, but we are not doing the engagement ourselves. We do not have resources to do it all ourselves, so we have to use a 3rd party. But we need to be on top of what's going on in those engagements and follow up on them." (Head of Responsible Investments, Leto)*

> *"Nowadays, one can find quite powerful solutions, I don't anymore have to travel to California to participate in Apple's annual general meeting but I can do it here from by desk with proxy voting services. -- We choose what we vote but quite often it follows the voting recommendation of our service provider." (Coeus)*

6.2.3.2 The debated nature of measuring the responsibility of investments

The following chapters analyze investors opinions on how responsibility should be measured. As a result, a list of seven desirable characteristics of responsibility measures are identified: holisticity, forward-lookingness, long-term financial materiality, connectedness to system-level sustainability, the coverage and comparability of rated companies, standardization and transparency, and not using the somewhat biased sustainability reports of the analyzed companies. However, as also seen with both responsibility terminology and practices, measuring responsibility provokes a fierce debate among the investors. Therefore, the identified characteristics are presented in Table 13 in a format showing arguments both for and against the given characteristic.

Debated characteristic of an ideal responsibility measure	Rationale for the characteristic	Counterarguments
Holistic assessment of "what" the company does and "how"	"What" (screening/impact data) and "how" (ESG data) are both required to understand corporate responsibility.	No single measure can cover all important aspects. Relevant questions to be asked are context-specific.
Forward-lookingness	Data for investment-decisions should help anticipate the future, and not be based on lagging indicators.	Forward-lookingness is very hard to measure. Focusing on intentions instead of (past) actions helps greenwashers not to walk their talk.
Financial materiality and long-termism	The main motive to measure responsibility is risk-adjusted return in the long-term. Materiality is context-specific.	Financial materiality might not converge to responsible or sustainably material. Context-specificity deteriorates coverage and comparability.
Connectedness to systemic sustainability	Responsibility should be linked to systemic constraints and targets. Peer-relative assessment praises the best of worst.	Sustainability-wise material issues might not be financially material.
Coverage and comparability	One should be able to compare responsibility issues over the whole investment universe.	No single measure can cover all important aspects. Materiality is context-specific and only close industry peers can be compared.
Standardization and transparency	Uncorrelated black box measures are not reliable tools for investors.	Measures deliberately measure different things; no single measure can cover all important aspects.
Not using company disclosures as data sources	Company disclosures are a biased source of data. Reporting should not be the main outcome of responsibility.	Standardized and obligatory reporting would be rather reliable.

Table 13: Key debates related to the ideal characteristic of responsibility measures

As a general finding on the mentioned themes, the effect of the financial imperative is again clearly seen in most of the motives: many of characteristics, like financial materiality, coverage and comparability, relate to investors financially-oriented motives for responsible investing. This supports the finding about investors' and 3rd party raters' mutual dependency stated in the previous chapter.

6.2.3.3 Holisticity of the questions considered

> *"I cannot say what [responsibility] measures would be ideal, but I can say that we don't currently have good enough measures. It's very hard for me to answer because I don't know what I'm looking for." (Tethys)*

Investors' opinions on current and ideal responsible investing measures can shed light on their underlying views on and motives to responsible investing. As discussed before, many disagreements and misunderstandings related to responsible investing stem from different views about what responsibility is and how it should be modelled. When it comes to quantifiable measures of responsibility, the most important issue is therefore to understand what investors would ideally want the measures to measure, i.e. what questions the measures should try to answer in the first place.

One way of dividing measures in this regard is to ask to what extent the measures seek answering *what* companies do, i.e. what their offering is, and to what extent they analyze *how* companies produced and provide their offering without paying that much attention to what the offering actually is.

The most common take to this discussion is that it is not possible nor even very meaningful to try to exactly define what questions to answer without knowing the context. Many also mention that measures should instead combine both approaches and think about them as complements rather than mutually exclusive choices. As two investors state:

> "*Ideally… we should take both ["what" and "how"] into account. In practice, we should first look at what products and services the company provides, and then inside those we would look how the company does what it does. -- They are, in a way, two different things that you can combine." (Atlas)*

> *"The big picture is the thing to assess when one makes investment decisions. You cannot really part them ["what" and "how"] and it is even dangerous that some investors only focus on either one." (Phoebe)*

As a response to this, some investors argue that in some rather straightforward cases, responsibility can be determined based on a scientific consensus while they still admit that outside this, exhaustively "right" answers cannot be given:

> "*The questions should have some kind of a scientific background. Take for instance tobacco. If there's a scientific consensus that there are no positive effects of*

> *smoking, then that should be the guiding factor based on which measures are set. But if there are no proven universal truths, then it's about values, and as said, you cannot classify or rank values." (Crius)*

As one investor states, the given focus of analysis, e.g. picking industries from the whole investment universe or comparing an existing, thematically-chosen portfolio, determines which question is more important:

> *"If you look globally, you can answer more "what" is done but if you compare among industry peers, you should focus more on "how"." (Theia)*

Moreover, many investors also criticize current measurement methodologies of just measuring things that are easily measurable. Instead of providing "right answers" to whatever questions, as one investor states, the measures should focus on identifying the right questions even if answering those was much harder:

> *"The finance industry tires to measure everything that it can. This is like baseball statistics: everything is measured if one just gets a permission to do so. At the moment we have measures about E[nvironmental]-related things. Companies report their carbon footprint, waste metrics and fresh water use because these are easy to measure. Therefore [responsibility] compliance is heavily concentrated on E[nvironmental] factors." (Iapetus)*

The same myopia may also continue inside the environmental dimension. Often, responsibility measures neglect scope 3 upstream and downstream emissions and evaluate companies based on the more easily-measurable scope 1 and 2 emissions[52]:

> *"At the moment we only measure what we can see. We have scope 1, 2 and 3 and the only thing we look at is 1 and 2. We don't measure the most important, scope 3, which tells what the emissions from products and services are." (Tethys)*

Similarly, many investors emphasize how important it is to clearly define what one has used as the counterfactual or base case of the analysis. For instance, they ask whether companies are rated against their peers and how "averagely responsible" behavior is defined:

> "*[Measuring] carbon footprint is very common nowadays, but it raises a question: to where should it be compared to know whether it's relevant? Is it among the same industry, geographically, are there carbon sinks related to the company…" (Helios)*

[52] https://compareyourfootprint.com/difference-scope-1-2-3-emissions/, Accessed 28.5.2020

Nevertheless, most investors seem to associate the question “what” with exclusionary screening or impact, and the question “how” with ordinary ESG data:

> “*I usually differ them so that when we talk about how a company does something, we talk about ESG data and integration because that’s what ESG is mainly about. And then when we talk about what the company does, we talk more about impact.” (Atlas)*

> *”To some extent, we have it here so that “what” is done means excluded industries to us but outside that we then look “how” it is done.” (Coeus)*

Some investors also think that the question “how” is more related to understanding operational risks, and “what” is better suited for understanding opportunities as well as long-term risks threatening the existence of the whole business:

> *“ESG integration relates more to a company’s operative business. -- The other part is then what kind of business opportunities it has. Generally speaking, you can find more risks related to operations, and opportunities related to products and services. Of course, you can also have risks in the business itself, as in fossil fuels.” (Phoebe)*

> *“A good starting point is to understand what is done, is the product part of the problem or the solution. Especially when you think about climate change. Every product can be analyzed in this sense, it’s an analysis conducted and understood rather easily.” (Mnemosyne)*

6.2.3.4 Forward-lookingness

While the debate on the relative importance of the questions “what” and “how” continues, another measure characteristic gets almost unequivocal support from all investors: the measures should be forward-looking. As one investor states, this means that most of the current measures are backward-looking, and of no use for anticipating the future development of companies’ responsibility:

> *“The problem with these measures is that they measure what has already happened. Traditionally, you should look into the future when valuing a company. If you’re conducting a DCF, you look at future cash flows, but in responsibility you look what the carbon footprint was two years ago. That’s the issue… [the measures] should be forward-looking for one to be able to answer in what kind of a position the company will be in the future.” (Prometheus)*

Naturally, these investors calling for more forward-lookingness admit that anticipating the future in this context is very hard; particularly because the information required for such analyses is often of the most secret and strategic kind. Nevertheless, investors have several proposals for how forward-lookingness could be incorporated into the measures.

To begin with, a rather obvious way would be to track the "responsibility momentum" of companies, i.e. look for firms that are improving their responsibility ratings the most. As one investor states, this might help provide some quantitative information to support to otherwise very qualitative data-driven process of understanding future responsibility:

> *"[When asked how to measure companies' future intention of responsibility.] Rating momentum. It's a bit backward-looking, not exactly something that would measure the future change of ratings. Maybe it shows what companies want to do if they have improved. Otherwise, this is rather subjective analysis: getting to know the strategy and interviewing the management." (Mnemosyne)*

A bit more sophisticated method proposed by many investors could be to analyze how responsibility is linked to a firm's strategy. This view contains three different approaches. First, as one investor states, the measures should assess the long-term strategic objectives and board resolutions:

> *"What the companies will do in the future, what is in their strategy… what kind of goals do the board and management have on, say, decreasing carbon footprint or freshwater use." (Coeus)*

Second, these aims should also be seen in the short-term objectives of the management. According to many investors, this would prevent companies from just announcing ambitious long-term aims, while not really making concrete changes in their everyday operations. Third, several investors emphasize how the (lack of) linkages between management compensation and these long and short-term objectives are, in their opinion, the single most important aspect that forward-looking measures should analyze. Quoting two investors, the misalignment of plans and incentives is one of the most efficient ways of spotting which companies really walk their responsibility talk:

> *"Another thing that would give credibility for forward-lookingness, is the linkage [of plans] to the short-term strategy of the company. -- Thought leader companies have set long-term goals but also tied them to short-term strategies, e.g. to management incentives and short-term objectives. That's how they make it visible now and not in the future. It creates credibility. -- Instead of having it superimposed… it would be important to have it in the core of their strategies and*

hence also tied to their [financial] incentives. If that isn't the case, then it's not credible and more like a marketing exercise." (Crius)

"In terms of measuring success on the other part, which is stewardship and the engagement process, that is kind of difficult. There are ways to do it: you look at the resources of supply, the quality of objectives and targets, and the ways they are tracked. But the core issue is that are investors behaving like owners or traders?" (Themis)

On the other hand, as one investor notes, having even the most credible plan is not very credible if one's competencies and capabilities do not match it:

"Or if it [a company] doesn't have capabilities to solve these problems. There could be good intentions... and motivated employees but then no capabilities to solve it. Either you don't have money or resources or you're just trying to solve things you aren't capable of." (Iapetus)

Moreover, many investors note how measures should also try anticipating how the relevant regulatory climate is evolving, and how companies might try affecting this through lobbying. Similarly, the measures should hence analyze whether companies act consistently across all their plans, operations and means of affecting the society around them:

"... but one way to indicate the future could be to look at regulation and overall political climate. Though, these are difficult in a way that political views are short-sighted, one only sees to the next election term." (Eos)

"Also any other things that the companies do. For instance, they might have ambitious goals but also be involved in trade associations that lobby the opposite. So, the consistency of actions also gives credibility for the importance of the aims." (Theia)

6.2.3.5 Coverage and comparability

In addition to deciding to which questions the measures should seek providing answers, the tradeoff between a wide scope and in-detail accuracy is also heavily debated. Investors understand the width of scope in two different ways: as coverage and holisticity. Hence the first, coverage-related tradeoff is between measures that cover the whole investment universe including all sorts of companies, industries and even asset classes, and measures that are much strictly scoped to certain sorts of investments but therefore also optimized to measure issues relevant in those specific cases. In turn, the second trade-off is between holistic measures that take as many different aspects about responsibility into account as possible, and measures that are focused on only certain aspects of responsibility (say, fresh water use or supply chain human right issues).

Proponents of asset agnostic and holistic measures usually state that without being able to compare companies across industries, one cannot really apply the given responsibility measure to automated portfolio-wide investment decisions – the kinds that most of the large institutional investors with diversified global portfolios are constantly facing. As two investors put it:

> *"... when one invests in all over the world, the investment universe should be covered as thoroughly as possible. There's no use in having only Finnish or even European [companies covered]. We want to have the same methodology throughout the whole [investment] universe." (Mnemosyne)*
>
> *"This is so automated nowadays. -- You have to be able to process the data at a high level, not one company at a time. We have thousands of companies, no one can really know them all. This is how wide a scope we institutional investors have. The portfolio is also diversified, that's another reason why it must be processed automatically." (Oceanus)*

In addition, many proponents of this view also argue how concentration on certain industries and peer-relative normalization of scores inflates small differences out of proportion, making practically very similar companies look quite different in terms of responsibility:

> *"They [the measures]... measure responsibility and sustainability of a company inside an industry. You aren't interested in that if you have multiple industries. How the heck should that matter? A typical example are listed property development companies which are very similar in terms of responsibility. [Responsibility rating] providers still have to force them to a normal distribution: some get the best and some the worst scores. But the differences are very small in absolute terms. That may cause your portfolio to appear less responsible while in reality the portfolio is very similar to other portfolios [created from the same industry]." (Iapetus)*

On the other hand, some investors reject the idea of industry-wide and holistic measures, either as impossible or impractical. Some critics repeat the aforementioned statement that responsibility is such a complex thing to comprehend, let alone measure, that no single measure should even try catching all of its aspects. Some, in turn, think that while universal comparisons might in theory be possible, they do not have much practical relevance due to vast differences between different industries:

> *"Universality is difficult, there are such large differences in industry-specific issues. And for example social issues might differ quite a lot for a clothing company in a developing country compared to one in the Nordics." (Theia)*

Similarly, some investors point out that the current way most of the leading measures quantify responsibility makes them unsuitable for industry-wide comparisons. In particular, most measures evaluate the control mechanisms in place to prevent and manage a given issue. For instance, human rights scores might be partly derived from the amount and quality of human rights control mechanisms a company has in place to prevent violations of such kind. Naturally, different industries are typically exposed to different types of ESG-risks and hence have quite different prevention and management mechanisms in place. Because of this, as one investor explains, comparing across industries would give a distorted view of responsibility:

> *"Take for instance a Finnish bank and a machine shop. If e.g. child labor control mechanisms would be equally in place... it would be hard to see how this was a large risk for the bank, excluding risks of its investments. Typically, these [responsibility issues] are analyzed through control mechanisms, and if a risk is not relevant, there are no mechanisms either – meaning that the bank would score very poorly in this regard. So, you have to measure inside industries, though the industries can of course be quite widely defined. Then it's a whole another discussion whether the ratings should be based on control mechanisms in the first place." (Mnemosyne)*

6.2.3.6 Financial materiality and long-termism

Another characteristic of responsibility measures that gets practically unequivocal support from all investors is that measures should be financially material. This is mentioned by all the interviewees as a key characteristic of ideal measures. The very strong financial motive of investors is illustrated in the quotes of two investors stating how responsibility measures should only consider financially material issues:

> *"The output should only be things that are financially material, and which really affect the company's ability to make profit." (Coeus)*

> "*Effects and impacts that should be considered are the material ones. -- Your job as an investor is to choose the relevant tools and data points that you think fit your investment strategy best." (Leto)*

Another characteristic close, or according to many investors even tied to materiality, is long-termism. This means that, as three investors emphasize, investors seek responsibility measures that can help them find long-term financial outperformance:

> "*We are a long-term investor… so the measure should be able to spot risks and opportunities in the long run." (Coeus)*
>
> *"Because it is that where we want to find investment opportunities, the ones that are moving on. If you talk about revenue and sales, the ones that are already perfect are quite highly priced. But the ones wanting to be better, finding the way in their business models, they are the ones you should pick out." (Leto)*
>
> *"What's also very important and is related to our mandate as asset managers is that measures like these would be linked to the long-term financial performance of companies. If that's not the case, it's hard to justify them from the point of view of the company and the investor. Why would a company concentrate effort on putting forward things that don't yield anything but consume its resources thus driving the company bankrupt sooner or later?" (Crius)*

However, the key reason for such a dichotomy of financial and responsibility-related materiality might be mostly caused by the short-sightedness of the financial industry. Were the whole industry really long-term focused, as one investor notes, the two types of materiality would automatically converge:

> *"We feel that the short-sightedness of capital markets is a large problem from responsibility's point of view. That's what the companies and investors reporting quarterly results advance. We should make the whole market more long-term-oriented. Then responsibility would become a natural part of decision making." (Prometheus)*

6.2.3.7 Connectedness to systemic sustainability

Similarly to financial materiality, many, though not all, investors also require that there is strong evidence of responsibility-related materiality. Many investors, as illustrated in the following quote, do not at least explicitly state that these two types of materiality would be mutually exclusive, while still acknowledging them as two distinct things:

> *"The main question is how the company has performed in responsibility issues material for its own industry. Material not only for returns but also for ESG." (Theia)*

Some investors, however, take a stricter stance by arguing that e.g. the most common environmental measures are, to a large extent, not absolute but relative in their nature. This means that companies might get good scores by being *relatively* good in their environmental actions, even though summing up the total absolute effect of all these relatively well performing companies would be unbearable for the environment. Contrary, as two investors state, the actually responsibly (here environmentally) material measures should be linked to scientifically derived systemic top-down targets:

> *"Carbon data is always made relative to e.g. revenue or size of the investment. If we really wanted to cut emissions according to global goals, that would be in absolute terms. Even though our carbon [emission] intensity decreases, the total emissions might not. Here we go a bit returns first." (Prometheus)*

> *"Measures should be such that they can be linked to goals that actually come from the global sustainability perspective. -- Currently many companies observe that when, in a given industry, emissions are being reduced by 20%... "we are better and improve and reduce by 30%". Then it becomes a competition where you are the best of worst and the whole strategic picture is thus flawed. Instead, measures should be such that when one takes all the world's resources and people into account... what are then the outside-in sustainability targets. Take carbon emissions... everybody knows that we should reduce them by this and that amount, meaning that it's not about decreasing but, to be frank, it's about stopping them altogether or even turning them negative, and that should be the starting point according to which targets are set... so that we could actually link the long-term sustainability of a closed system, like the Earth, to company-level [responsibility] measures." (Crius)*

6.2.3.8 Standardization and transparency

While many investors think that the lack of correlation between different providers' responsibility measures is understandable and even to some extent desirable, as discussed in Chapter 6.2.3.1, many do also urge for more standardization of the measures. Likewise, many investors call for more transparency to the methodologies of the measures. Together, these two factors would allow investors to better understand what a given measure is measuring and how – which is crucially important given that the measures are mostly used as auxiliary tools to assist human investment decision makers:

> *"Maybe the fundamental reason for the large amount of different service providers, and the lack of correlation among their ratings, is that ESG information, unlike financial information, is not standardized in any way...*

reporting is standardized to some extent but information based on that isn't. – Ideally, measures would be standardized and transparent so that... whoever uses them, could easily deconstruct the analysis to its origins." (Crius)

"They [the measures] are often black box models. We intend to use data from many different sources and understand ourselves what aspects and questions are important... instead of trusting any single provider. -- I don't want to say... that the measures are of no use, but one must understand what the model is and what it does." (Coeus)

6.2.3.9 Company disclosures as data sources

Alongside the calculation methodologies, also the sources of data for the measures provoke discussion among the investors. In particular, the role of companies' own disclosures as sources of data for the very analyses about themselves is debated a lot. Opponents of reporting, as this investor, question the reliability of data collected in this manner:

"In practice, the ones who have collected the data shouldn't have been paid by the ones from which the data came... it should be public or otherwise collected data so that it hasn't e.g. been collected from the [analyzed] firm with a questionnaire. If you send a company a tick box questionnaire asking what they have done, it's always a bit biased." (Atlas)

Some opponents add to this that even though companies are the best ones to tell about themselves, the lack of standardization makes them report all sorts of irrelevant things, too. Additionally, they criticize the verification services of responsibility disclosures of missing this point – the verification agencies may indeed confirm the correctness of the disclosed issues while still not analyzing whether the reported data was material at all:

"As said, the companies should know what's material. But at the moment we're lacking standards and therefore we have too much data. Companies want to report all sorts of things but what is then relevant for the investors? For sure there are service providers who verify responsibility reports... but another question is whether that is all the data and is it material." (Eos)

In addition, many investors note how differences in companies' abilities to report, as well as cultural differences, make reporting-based data biased towards only certain kinds of companies:

"We see that large companies inform more than small companies because it's a resource issue at the company level. At the same time, Western companies inform and communicate more than emerging-market nation companies. It's sometimes

very hard to do in-depth analysis for instance on Latin America funds because there's simply not enough information of the market." (Epimetheus)

Finally, some critics add that the use of disclosure-centric measures incentivizes responsibility-related actions towards reporting, which is quite far from what corporate responsibility should be:

"It makes no sense that shareholders encourage companies, through any signal, to fill responsibility raters' papers who collect money from creating these reports. -- Take professional asset managers… we have certain ways of satisfying our clients. We can… produce reports… obligatory uselessness. -- Instead of having a reporting dimension at place all the time, we should look at what kind of a holistic societal impact our portfolio has." (Iapetus)

On the other hand, while acknowledging the shortcomings of company disclosures as a data source, some investors call for more reporting from companies. They too, however, note that reporting should be conducted through standardized and obligatory forms:

"Companies should report more so that the data we get from [responsibility data service] providers would be more trustworthy. Now there's too much guessing." (Oceanus)

"If we had strict regulation, that would force [companies] to report and set goals accordingly. -- Now it's too much based on voluntarism. -- Many parties, including us, can tell a lot about responsibility without being very responsible." (Prometheus)

7 Discussion

7.1 Main findings

7.1.1 Motives, manifestations and systemic mechanisms of institutional responsible investing in the Nordics

The two first research questions of the study concern the motives and manifestations (operationalizations) of responsible investing in the context of Nordic institutional investors. To address the complex, multifaceted and socially constructed nature of corporate responsibility (Hahn et al., 2014; Matten and Moon, 2008), the aim of this study is to map the factors and antecedents on multiple levels of abstraction explaining the status quo of institutional responsible investing in the Nordics. Building on top of the multilevel classification of corporate responsibility motives by Aguilera et al. (2007), the key themes – why and how, or motives and means of operationalizing responsible investing (RI) – are here analyzed from the points of view of three different units of analysis: the socio-technological metacontext, the organizational level and the individual level. Moreover, the resulting framework (Figure 5) also distinguishes the observed RI motives and practices of the investment organizations (bolded boxes) from contextual antecedents that explain these observations (dotted boxes). By reflecting the motives and manifestations on existing theory, six mechanisms driving the behavior of the system can be identified.

As argued by Matten and Moon (2008) and seen in Chapter 6.1.1, investors' motives for responsibility are driven by the societal antecedents of corporate responsibility, namely the *financial imperative* of fiduciary duty. Here the society's collective *normative antecedents*, i.e. the values, social norms, and cognitive and behavioral schemata related to corporate responsibility, are projected onto the prevailing political, economic and legal systems, the existence and mandate of semipublic entities (such as pension funds in the Nordics), and onto investors' regulatory boundaries, such as the interpretation of fiduciary duty.

As seen in Chapter 6.1.2, investors' opinions on the fundamental questions of corporate responsibility reflect the strong obligation of fiduciary duty. Even though most investors seem to believe that responsibility and returns are aligned in the long run (see Chapter 6.1.1.3), this "long-termism" seems to differ substantially from the kind of real long-termism proposed by sustainability scholars (Bansal and DesJardine, 2014). Explicitly, the obligation of fiduciary duty is seen in the investment risk and opportunity motives discussed in Chapter 6.1.3. Hence, the first mechanism driving the system can be proposed:

Mechanism 1: Short-termist financial imperative from fiduciary duty

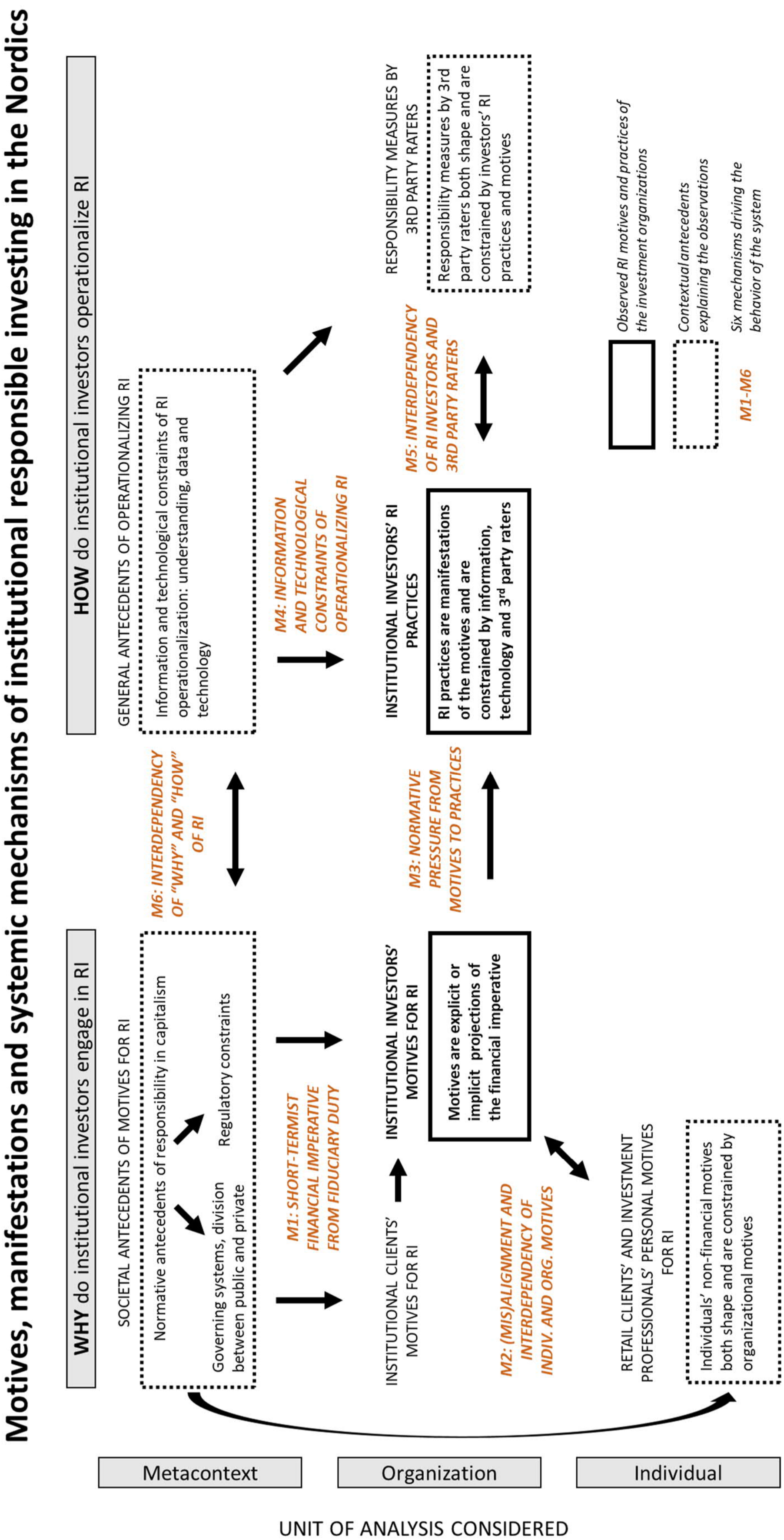

Figure 5: The motives, manifestations and systemic mechanisms of institutional responsible investing in the Nordics

However, the obligation of fiduciary duty is also seen implicitly in the marketing, public image, recruiting and knowledge motives of investors. To understand this better, the personal responsibility motives of retail clients and investment professionals must be examined more closely. Regarding this, Chapters 6.1.2, 6.1.3.4 and 6.1.3.5 indicate a similar finding that Aguilera et al. (2007) proposes: individuals, unlike organizations, can have non-financial primary motives for responsibility.

This proposition has three important implications. First, these nonfinancial motives (such as retail investor's urge to invest responsibly even if that were to temporarily deteriorate risk-adjusted returns, or investment professionals' motive for a meaningful workplace) are projected onto implicit organizational motives of the investment firms. Second, however, the Weberian *iron cage*[53] of fiduciary duty (DiMaggio and Powell, 1983) also constrains the non-financial motives of individuals. As seen in Chapter 6.1.2, for example, individual investment professionals cannot be "too ahead of their time" in terms of responsibility if that does not result in better risk-adjusted returns in relatively quickly. Third, this possible misalignment of motives may be observed as the cognitive dissonance of the individuals; though, as seen in Chapter 6.1.2.3, the *iron cage* effect may alleviate this dissonance by constraining what the individuals even dare to desire as their motives. Hence, the second mechanism can be proposed:

> ***Mechanism 2: (Mis)alignment and interdependency of individual and organizational motives***

Institutional investors' motives for responsible investing emerge as a result of the two first mechanisms. These organizational motives, as outlined in Table 10 of Chapter 6.1.3.1, can be divided into explicit ones directly concerning investment performance, and into implicit ones addressing marketing and human resources management matters.

Most of the motives in the former category relate to risk management, such as managing long-term tail risks and short-term cost of capital and controversy issues of the investment targets, or are driven by the inherent risk-focus of the investors due to the nature of their legal status (e.g. pension funds) or products (e.g. bond investors). Though investment opportunity seeking is also seen as an important motive, the supplementary questionnaire on the relative importance of the motives (see Chapter 6.1.3.7) indicates that long-term risk management is the reason for responsible investing. In addition, asset managers seem to

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[53] "*A metaphor by Max Weber to capture the effects of increased rationalization in society, which leads to people becoming trapped in a 'cage' of systems that -- determines the lives of everyone born into this system, leading to disenchantment and constrained freedom.*" (Jeanes, 2019)

particularly value the risk management motive, possibly due to their shorter time focus and greater client demands compared to asset owners.

The latter category of motives, on the other hand, relates to marketing, public image and human resources management. These include motives such as client demand and legitimacy signaling by complying with responsibility certificates and agreements, as well as motives related to employee recruiting, motivation and education. As indicated in Chapter 6.1.3.7, the legitimacy signaling motive seems to be the second most important of all motives. Moreover, it seems to be more important for asset managers than owners – quite naturally, as asset owners are the ones of the two who directly face clients.

Only now do we proceed to the most common level of analysis when it comes to responsible investing: the actual responsible investing practices. These consist of labelling products as responsible and using inclusionary screening (*thematic investing*), integrating responsibility to all investments (*ESG integration*), assigning a responsibility function in the organization, conducting exclusionary screening (*ethical investing*), *engaging* with companies through the means of active ownership and making *impact investments*. However, as discusses in Chapter 6.2.1, the differences in how investors comprehend responsibility and what type of an investor they are (e.g. in terms of geographical focus, clients base, mandate, size and product mix) provoke a fierce debate about the listed practices. Hence, the practices are presented in the form of key debates in Table 12 of chapter 6.2.2.1. Nevertheless, all the practices are strongly rooted in the motives investors have for responsible investing, leading to the third mechanism:

Mechanism 3: Normative pressure from motives to practices

In addition to being manifestations of the motives, the responsible investing practices of investors are, however, also constrained by two other factors. First, as stated in Chapters 6.2.1 and 6.2.3, they are subject to the *general antecedents* of operationalizing responsible investing. This means that in addition to the normative "responsibility is about X" – the theme of motives in Chapter 6.1 – also the comprehension-related "from what does X consist and depend on", the data-related "what and how much data do we have about X, and how reliable is it" and the technology-related "what technological limits are there to understand X, and gather and analyze data about it" affect the operationalization of responsibility. Hence, the fourth mechanism is proposed:

Mechanism 4: Information and technological constraints of operationalizing responsible investing

Second, when quantifying responsibility, as stated in Chapter 6.2.3, investors are currently dependent on responsibility measures created by 3rd party responsibility rating agencies. This means that even though many investors do have their own practices and investment strategies related to responsible investing (e.g. best-in class ESG strategies), they are practically forced to rely on 3rd party data (e.g. ESG data) when implementing these strategies. On the other hand, the 3rd party responsibility rating agencies are also dependent on their clients, the investors, and hence are implicitly bound by the underlying financial imperative. Moreover, as Chapter 6.2.1 notes, the concepts of responsible investing are not only comprehended but also voluntarily created by both the investors and rating agencies.

As a result of these pressures – the investors' motives for responsible investing, and the dependency of operationalization on both the general antecedents and the 3rd party rating agencies – a list of ideal characteristics of responsibility measures emerges. For the same reasons that investors debate on the key responsible investing practices, they also have varying opinions on the ideal characteristics of responsibility measures. Table 13 in Chapter 6.2.3.2 lists these debated characteristics of ideal responsibility measures as follows: holisticity, forward-lookingness, long-term financial materiality, connectedness to system-level sustainability, output coverage and comparability, standardization and transparency, and not using the own disclosures of the analyzed companies as data sources. To conclude, the relationship between investors and 3rd party raters is analogous to lenders and credit rating agencies and leads to the fifth proposed mechanism:

Mechanism 5: Interdependency of RI investors and 3rd party raters

Finally, there is a mutual dependency between the high-level "why" (normative antecedents) and "how" (antecedents of operationalization) of responsible investing. This means that as corporate responsibility, including its operationalization to RI practices, is a socially constructed phenomenon (Hahn et al., 2014; Matten and Moon, 2008), the antecedents of how responsibility can be operationalized are naturally motivated and guided by the normative societal antecedents, i.e. the antecedents of "why". But the same is also true to the other direction. When, for instance, we understand more about climate change, in a positive (observing) sense, our normative opinions about it may change, too. Likewise, when e.g. machine processing of natural language or superhuman data analytical capabilities become available (e.g. to analyze the aggregate media sentiment of a company), our normative beliefs about how responsibility should be defined may also change. Hence, the sixth mechanism is proposed:

Mechanism 6: Interdependency of "why" and "how" of RI

7.1.2 Beyond responsible and irresponsible: reflections of corporate responsibilities in Nordic institutional investing

The third research question of the study is a wide and complex one: what kind of perspectives on corporate responsibility do the current operationalizations of responsible investing by Nordic institutional investors reflect? The question itself contains a crucial insight: it denies the existence of a universal and undisputed definition of corporate responsibility against which the given actors can be evaluated. It acknowledges that corporate responsibility is a term of many definitions (Montiel and Delgado-Ceballos, 2014) and many definers actively giving new comprehensions to it through social construction (Hahn et al., 2014; Matten and Moon, 2008). Plainly asking whether an investor is responsible or irresponsible would make the rather myopic unspoken assumption that there exists only one corporate responsibility. The level of analysis must transcend beyond the definitive responsible/irresponsible divide and acknowledge the plurality of sometimes conflicting perspectives on corporate *responsibilities* (Bansal and Song, 2017), hence the Nietzschean title for this chapter.

The views against which investors' practices are in this chapter compared are presented in Table 1 of Chapter 2.1. These consist of the shareholder value-preaching *Friedman doctrine* (Jensen, 2002; Friedman, 1970/2007; Levitt, 1958), PR-focused and rather opportunistic *Strategic philanthropy* (Husted et al., 2006; Godfrey, 2005), *Corporate citizenship* (Matten and Crane, 2005; Logsdon and Wood, 2002) that sees corporations as political and moral actors, *Shared value* (Engert et al., 2016; Porter and Kramer, 2011) that sees responsibility not as an alternative but a prerequisite for financial success, and finally *Doughnut economics* (Raworth, 2017) stemming from planetary and sustainability sciences, and development studies.

When framed as answers to the question "to whom and for what are corporations responsible", these views form a continuum from the *Friedman doctrine* to the *Doughnut economics* (see Table 14) in which each new view decreases the "externality residual" (how much is left out from the systemic view of the realm of corporations) while simultaneously broadening the scope and increasing the complexity of corporate responsibility (Bansal and Song, 2017; Godfrey, 2005).

Reflections of responsibility perspectives in current RI practices of Nordic institutional investors

Externality residual decreases, scope and complexity of responsibility increase →

Perspective on corporate responsibility	Friedman doctrine (Jensen, 2002; Friedman, 1970/2007; Levitt, 1958)	Strategic philanthropy (Husted et al., 2006; Godfrey, 2005)	Corporate citizenship (Matten and Crane, 2005; Logsdon and Wood, 2002)	Shared value (Engert et al., 2016; Porter and Kramer, 2011)	Doughnut economics (Raworth, 2017)
How Nordic RI reflects this	Fiduciary duty gives investors a financial imperative.	Many investors see legitimacy signaling as an important motive.	A few investors see responsibility as the moral duty of influential investment firms.	Most investors see that returns follow from responsibility in the long term. Many cite Shared value.	Many investors cite sustainability terminology. A few believe that we need a more systemic perspective on RI.
How Nordic RI doesn't reflect this	Most investors see that returns follow from responsibility in the long term. Many explicitly deny Friedmanian thinking.	Most investors explicitly state that PR is not nor should be the main reason for RI.	Corporate lobbying divides investors' opinions. Only a few acknowledge firms as political actors.	A few investors doubt the return potential of responsibility. Current operationalizations of RI don't fully align responsibility with returns.	Our current economic paradigm is incompatible with many aspects of doughnut economics.
Sustainability paradigm (Landrum, 2018)	Weak sustainability				Strong sustainability

A paradigm shift in responsibility thinking. Currently blocked by the "iron cage" *(Gladwin, 2012; DiMaggio and Powell, 1983)* ***of our capitalistic system.***

Table 14: Reflections of responsibility perspectives in current RI practices of Nordic institutional investors

Nevertheless, the views are not totally mutually incompatible. For instance, the *Friedman doctrine* and *Shared value* could converge if the societal operationalizations of responsibility, such as the price mechanism, would fully incorporate issues that are currently left as externalities. Though, some aspects of the views, like creating business cases from alleviating extreme poverty in *Doughnut Economics*, might require much larger paradigmatic shifts in the division between public and private and the purpose of companies (OECD, 2019).

In short, the current operationalization of responsible investing by Nordic institutional investors seems to reflect most the *Friedman doctrine* and *Shared value* perspectives, while some hues of all the other paradigms can also be seen. *Shared value* is very explicitly promoted by many investors, though its premises have its critics and doubters (Chapters 6.1.1.3. and 6.1.3.1.). *Friedman doctrine*, though explicitly criticized by many investors as too black-and-white and outdated especially in terms of its claims about the mutual incompatibility of returns and responsibility (see Chapters 6.1.1.2 and 6.1.1.3), can still be seen in the investors' practices in two ways.

As proposed in Mechanism 1, the overarching financial imperative of investing is the driver of responsibility practices. Conversely, pursuing responsibility would be infeasible if it did not yield better risk-adjusted returns (see Chapters 6.1.1.1 and 6.1.3.1). On the other hand, many investors seem to think that optimally, the systemic steering mechanisms, like regulation and responsibility information, would make the separate concept of responsibility obsolete – most profitable would simply be the most responsible, too. As seen e.g. in Chapters 6.1.2.2 and 6.2.2.2, many think that this is the most desirable future development of responsible investing. To conclude, the current form of Nordic institutional responsible investing seems to explicitly apply *Shared value* thinking while still being implicitly constrained by the *Friedmanian* interpretation of fiduciary duty.

When it comes to *Strategic philanthropy* and *Corporate citizenship*, few investors admit looking at responsible investing through these lenses. *Strategic philanthropy* is quite explicitly rejected in investors' comments but the high relative importance of legitimacy signaling, especially for asset managers, indicates that it is still being applied to some extent (see Chapters 6.1.3.4 and 6.1.3.7). *Corporate citizenship* is reflected somewhat similarly; few investors see themselves as *corporate citizens* with political power. One of the few themes where this perspective is applied is the debate about corporate lobbying (see Table 9 of Chapter 6.1.2.2), where investors discuss whether corporations should use non-market means (such as lobbying) to pursue their responsibility targets.

However, *Doughnut Economics*, which may be considered as the strictest and purest of the views (Bansal and Song, 2017; Korhonen, 2003), is hardly compatible even with the current systemic antecedents, let alone concrete operationalizations, of responsible investing. If *Shared value* and *Friedman doctrine* could be, and to some extent are already, aligned (Chapters 6.1.1.3 and 6.1.3.1), *Doughnut Economics* is incompatible with the two in much more fundamental ways. For instance, environmental responsibility according to *Doughnut Economics* would mean that economic growth cannot anymore be pursued if absolute resource decoupling is not achieved (International Resource Panel, 2019; Steffen et al., 2015). But this is contradicted by basically all the other perspectives in which the Weberian *iron cage* of fiduciary duty (DiMaggio and Powell, 1983) forces investors to be responsible only to the extent that serves the financial imperative of investing.

This is seen in the findings in myriad instances: the financial imperative overrides all other responsibility considerations in the end (see e.g. Chapters 6.1.1 and 6.2.1), one cannot apply "too" responsible investment practices e.g. by engaging with fossil fuel producers by acquiring them and shutting the plants down – simply because that is both poor investing and sometimes even illegal given the fiduciary duty (see Chapter 6.2.2.6) – and the leading measures of responsible investing are not connected to the systemic, *Doughnut Economics* -type constraints (see Chapters 4.2.3 and 6.2.3.7). What is more, as proposed in Mechanism 2, even investors' personal motives and views seem to be constrained by the overarching financial imperative. As seen in Chapter 6.1.2.3, investors seem not even dare to imagine thoughts too conflicting with the financial imperative – because any excessive idealism would lead to not much else but excessive cognitive dissonance.

To conclude, Nordic institutional investors seem to genuinely try to comply with the ideals of *Shared Value* while still being deeper inside *Friedmanian*, bound by the *iron cage* of fiduciary duty (DiMaggio and Powell, 1983). This gives a *wicked, complex* and *systemic* framing responsible investing (Bansal and Song, 2017; Hahn et al., 2014). In the words of two interviewees, it is not anymore sufficient to only ask whether an investor is responsible, but we must discuss whether the whole system in which the investors operate is responsible:

> *"... because we do, in the end, live on a closed Earth, and this current overconsumption is coming to its end, meaning that something must be done for the system from every player's point of view. This concerns the area where we change the whole system and the fundamentals based on which it works... why companies even exist, in the first place. It's quite tough a question." (Crius)*

> "*In the big picture, the responsibility is at the public and political levels, and on the guidance, regulation and structural reforms coming from there. -- This resembles*

> *the question of what is the responsibility of a single company and what is the responsibility of capitalism." (Cronus)*

Our current capitalistic system – societal, economic, political and legal – is the very *iron cage* (Gladwin, 2012; DiMaggio and Powell, 1983) that prevents investors from adhering to *Doughnut Economic* strong sustainability (Raworth, 2017), and as Weber (1905/2005, p.123) famously puts it: "*Perhaps it will so determine them until the last ton of fossilized coal is burnt*".

7.2 Theoretical implications

7.2.1 Implications for the literature on responsible investing motives, practices and measures

The first set of theoretical implications concerns the *how* part of the study: the proposed categories of motives and identified debates on practicing and measuring responsible investing. Regarding the motives, the findings are in line with Bansal and Roth (2000) who propose that the main reasons for corporations to be (in their case ecologically) responsible are competitiveness, legitimacy and responsibility for its own sake, though they note that the last motive can also be seen as an instrumental motive for attracting and retaining talent. In this study, these three motives correspond to investment performance, marketing and HRM motive categories, respectively. At a more granular level, most of the proposed motives (see Table 10) including long and short-term risk management, opportunity seeking, client demand, PR, legitimacy signaling through certificates and recruiting are recognized in previous literature (see Table 3 and Chapter 3). The study also proposes two new motives. First, it proposes a risk management motive due to the legal (e.g. pension fund) or product (e.g. bond investor) characteristics of the investor. Second, it proposes that, in a self-fulfilling way, engaging in responsible investing can help investment organizations gain knowledge and expertise on the topic and educate their employees on it – which again helps the organization invest more responsibly and reap other benefits of responsible investing.

Moreover, the study proposes that in the end, all investors are purely financially motivated and that all the non-financial motives like clients' or employees' motives for responsibility for its own sake are hence projected onto the financial motives – here marketing and recruiting, respectively. In this regard, the study slightly diverges from previous literature. Though previous studies have acknowledged such a pure financial orientation, they have also proposed that corporations can have a wider variety of non-financial and even altruistic primary motives (Schaltegger and Burritt, 2018; Busch et al., 2016).

As the main responsible investing practices, the study proposes (Table 12) responsibly-themed products and best-in-class inclusionary screens, ESG integration, responsibility function in the organization, exclusionary screens, engagement and impact investing. These follow the classifications and key critiques of previous literature (Table 4 and Chapter 4.1). However, the study also recognizes a set of non-market strategies that extend the role and disposable means of investors beyond the traditional scope of investment strategies (Table 9): focusing on capital issuances and engagement, affecting real consumption and investments, promoting regulation and reforming corporate lobbying, and shifting the financial industry to be more long-term-oriented. This extends the theoretical discussion on the *Corporate citizenship* perspective (Matten and Crane, 2005; Logsdon and Wood, 2002) and political theories (Scherer and Palazzo, 2011, 2007) of corporate responsibility to a more concrete level.

Finally, the study discusses the ideal qualities (addressing the main criticisms) of responsible investing measures by 3rd party rating agencies. The list of debates on the ideal characteristics (Table 13) is mostly in line with the findings of previous studies: forward-lookingness (Doyle, 2018; Chatterji et al., 2009; Entine, 2003), financial materiality and long-termism (Khan and Serafeim, 2016; Orlitzky, 2013), connectedness to systemic sustainability (Escrig-Olmedo et al., 2019; Bansal and Song, 2017; Busch, 2016; Chatterji et al., 2016; Korhonen 2003), coverage and comparability (Berg et al., 2020; Doyle, 2018; Chatterji et al., 2016; Orlitzky, 2013), standardization and transparency (Doyle, 2018), and not using company disclosures as data sources (Shabana, 2017; Orlitzky, 2013; Kotchen and Moon, 2012). However, this study proposes one new lens through which the measures could be evaluated: their ability to holistically assess both *what* the company does and *how*. This means that for the measures to be able to grasp sustainability-related issues better (Bansal and Song, 2017; Korhonen 2003), the current heavy ESG focus of the measures that mostly concerns *how* companies do what they do should be complemented with product-driven analyses of *what* the companies actually produce – currently best captured in impact-driven measures (see Chapters 4.2.3 and 6.2.3.7).

7.2.2 Implications for the literature on the social construction and institutional pressures of responsible investing

The study also contributes to the branch of literature concerning the social construction and institutional isomorphism (pressures towards similarity) in the context of corporate responsibility. Previous studies have argued that corporate responsibility is a socially constructed phenomenon in many senses; that it is a result of the surrounding institutional conditions including the prevailing political, economic and legal systems as well as the underlying societal value base behind them (Matten and Moon, 2008), that it reflects the used cognitive frame of the key actors who define and practice it (Hahn et al., 2014), that the "solutions" to the issues of responsible investing are mere reflections of the chosen ways to define the actual problem (Etzion, 2018), and that the key actors do not just seek to objectively comprehend responsibility but actively use it as a communicative and sometimes even deceptive means to their profit-driven ends (Valentina et al., 2017; Crilly et al., 2016).

The study contributes to these discussions by showing how the terminology (Chapter 6.2.1), practices (Chapter 6.2.2), measures (Chapters 6.2.3), and even fundamental concepts of responsible investing (Chapters 6.1.1 and 6.1.2) are debated and partly socially constructed, and by proposing a new model (Figure 5) that illustrates the causal flows of this social construction. In particular, the study replicates two key socially constructive interdependencies proposed by previous studies: the tension between individual and investment organizations' motives in Mechanism 2 (Aguinis and Glavas, 2019; Farooq et al., 2017; Gond et al., 2017), and the tension between 3rd party rating agencies' and investors' operationalizations of responsible investing in Mechanism 5, that resembles the relationship of lenders and credit raters (Avetisyan and Hockerts, 2017; Slager and Chapple, 2016; Chatterji and Toffel, 2010).

Many previous studies have proposed that at the institutional level, a set of institutional isomorphism (similarity) pressures (Bitektine and Haack, 2015; DiMaggio and Powell, 1983) drive organizations to legitimize their actions – in this case legitimacy in terms of corporate responsibility (Matten and Moon, 2008; Van Oosterhout and Heugens, 2006; Wood, 1991). Moreover, the literature categorizes these pressures to *coercive* (regulatory), *mimetic* and *normative* (DiMaggio and Powell, 1983), and proposes that in a continuum of responsibility actions from irresponsible to very responsible, the *coercive* pressures correspond to the less developed and *mimetic* and *normative* pressures to the more advanced forms of corporate responsibility (Shabana et al., 2017; Roszkowska-Menkes and Aluchna, 2017).

The study, particularly Chapter 7.1.1 and Figure 5, acknowledges the effect of institutional pressures on responsible investing by proposing that the investors face a strictly binding "financial imperative". A few conclusions can be drawn from this. First, even though the study does not in detail analyze the type of this isomorphic pressure, it indicates that the financial imperative is most related to *coercive* isomorphism. As discussed e.g. in Chapter 7.1.2, an investor who would actually try to apply strongly sustainable (Landrum, 2018) forms of responsible investing might face criminal charges as that could violate fiduciary duty.

Previous studies have indicated that the *coercive* pressures correspond to the least advanced forms of corporate responsibility (Shabana et al., 2017; Roszkowska-Menkes and Aluchna, 2017) because corporations see corporate responsibility only as a minimizable agency cost (Frynas et al., 2016). This study, on the other hand, argues that the connection between *coercivity* and irresponsibility follows from the very existence of the *coercive* mechanisms themselves – that *coercive* isomorphism is not the result of but the reason for corporate irresponsibility.

What is more, in Mechanism 2 the study proposes that Nordic institutional responsible investing exhibits the *paradox of embedded agency* (Bitektine and Haack, 2015). This means that even though the pressures of institutional isomorphism guide organizations towards homogeneity, key individuals related to the organizations might have quite a variety of different opinions that may conflict with the organizational actions, and these diverging personal opinions are being suppressed (ibid, p.40): *"through coercion (by punishing evaluators for deviant judgment expression), inducement (by rewarding conformance), and selective diffusion of information (by withholding information that can negatively affect evaluators' propriety judgments)"*.

In conclusion, the study proposes that the institutional isomorphic pressures stem from very fundamental properties of our economic system, trapping investors inside an *iron cage* (DiMaggio and Powell, 1983). Following Gladwin (2012), the study hence argues that it is not the irresponsibility of investors and companies but the irresponsibility of the whole capitalistic system that prevents responsible investing from being strongly sustainable (Landrum, 2018).

7.2.3 Implications for the literature on the systemic, (un)sustainable and paradoxical nature of responsible investing

The final set of implications concerns an emerging branch of literature that approaches corporate responsibility from the perspectives of complex system science, sustainability, and paradoxical cognitive framing. To begin with, the study frames responsible investing as a complex and systemic issue (Figure 5) in which multiple levels of actors and system-level antecedents constrain and guide why institutional investors are interested in responsible investing and how they do it. This type of systems thinking is proposed by many scholars (Schad and Bansal, 2018; Williams et al., 2017) as a lens that could help see responsible investing as a *wicked* issue, i.e. beyond the total comprehension and control of any single actor in the system (Etzion, 2018), and also help (Williams et al., 2017, p. 877): "*recognize* *social-ecological embeddedness beyond the boundaries of the firm, industry, and product/process level, as well as the interconnections across multi-level, nested social-ecological systems.”*.

Moreover, the proposed mechanisms of Figure 5 answer Etzion’s (2018) call for *logic models* that can point out levers through which e.g. policymakers can interact with the system. In addition, the self-fulfilling social constructions that Ghoshal (2005) proposes to be found between “bad” management theories and “good” management practices, can be seen in (often rather myopic) responsibility theories and operationalization of responsible investing (Mechanisms 4 and 6).

Second, the study also extends the traditional business-driven comprehension of corporate responsibility (Bansal and Song, 2017) to sustainability (see Chapters 2 and 7.1.2, Table 1 and Table 14), which is a similar but distinct concept from responsibility (Landrum, 2018; Bansal and Song, 2017). In addition, by stating that a dichotomic responsible/irresponsible divide neglects the existence of multiple responsibility perspectives (see Chapter 7.1.2) the study inclines to Devinney’s (2009) implications on the multifacetedness of corporate responsibility. In terms of the most advanced form of corporate responsibility, however, the study diverges from several previous studies. In this study, the *Doughnut economics* (Raworth, 2017) paradigm is presented as what Gladwin et al. (1995) call *ecocentrism*. The authors criticize this *deeply ecological* (ibid) paradigm for giving too large a weight on non-human nature and prefer instead a more human-focused *sustainacentrism* (also discussed e.g. by Montiel and Delgado-Ceballos, 2014). This study, however, opposes the critique as *anthropocentric*, i.e. fundamentally too human-focused (Lewis and Maslin, 2015), and argues that, in the language of Gladwin et al. (1995), only the *ecocentric* – in this study *Doughnut economic* (Raworth, 2017) – paradigm can be considered as the ultimate form of corporate responsibility.

Finally, the study contributes to the literature on *paradox framing* of corporate responsibility (Schad and Bansal, 2017; Reinecke and Ansari, 2016; Van der Byl and Slawinski, 2015; Hahn et al., 2014), which emerges from the immanent tension between the corporate interests and the *Doughnut economic* (Raworth, 2017) systemic sustainability discussed above. The study finds paradoxical mismatches (see e.g. Busch et al., 2016) between seemingly responsible actions of the investors and the actual systemic unsustainability of the whole economy. For instance, practically all investors state how their main motive for responsible investing is long-term risk management (Chapter 6.1.3). However, their definition of the long term seems to be very far from a view that would actually account for the benefit of human and non-human life in the distant future (Chapter 6.1.2.2), and the institutional structures coerce and incentivize them to be short-termist

(Mechanism 1). This finding is in line with Slawinski and Bansal (2015) and Bansal and DesJardine (2014), who argue that in addition to the business-society and business-nature tensions, the paradoxically contradictory view on corporate responsibility manifests itself also temporally in a present-future tension.

In conclusion, the study's proposition of systemic unsustainability of responsible investing (Chapter 7.1.2 and Table 14) reflects not only the strongly coercive institutional pressures discussed in Chapter 7.2.2, but also investors' inability to apply paradoxical cognitive framing (Hahn et al., 2014) and inability to pay attention to *hyperobjects* (Morton, 2013), i.e. issues that spatially and temporally vastly surpass their ordinary frame of attention (Bansal et al., 2018). As a result, the practices of responsible investing might not really contribute to promoting systemic changes but, as Wright and Nyberg (2017, p. 1657) put it: "*regress to a business-as-usual approach*".

7.3 Practical implications

7.3.1 Managerial implications

For managers, the implications of the study are twofold. First, the study helps managers – were they then working for investors, their beneficiaries, companies or responsibility rating agencies – understand the systemic and socially constructed nature of responsible investing, and gives them a broad overview on different underlying perspectives on corporate responsibility that the operationalizations of responsible investing reflect. In addition, the study discusses how the main problems of making responsible investing *strongly sustainable* (Landrum, 2018) stem not from the decisions of individual practitioners but from fundamental properties of our capitalistic system.

At a general level, the study encourages managers of all kinds to approach responsible investing as a systemic and socially constructed issue (see Chapter 7.1.1), broaden their views of corporate responsibility from traditional business-focused lenses to sustainability science, ecology and development studies (see Chapters 2, 7.1.2 and 7.2.3) and apply *complex systemic* and *paradoxical* cognitive framings (see Chapter 7.2.3) that may help comprehend and manage *wicked* (Etzion, 2018) issues like corporate responsibility better than the traditional tightly-focused and linear *business case framings* (Hahn et al., 2014) of corporate responsibility.

Second, the study has a set of more practical implications for specific groups of practitioners. The categorization and relative importance of investors' motives for responsible investing (see Chapters 6.1.3 and 7.1.1) implies that responsible investing is done to improve investment performance (investment risk and return motives), to address the demands for responsibility by investors' key clients and employees (marketing and recruiting motives), and to learn about responsible investing by doing it to reap its other benefits (knowledge motive). Of these, the most important motives seem to be long-term risk management and legitimacy signaling through responsibility certificates, especially for asset managers. The findings related to responsible investing practices and measures show how different investors have conflicting opinions on traditional RI practices (Chapter 6.2.2), on broader means of pursuing responsibility, like promoting systemic changes through lobbying (Chapter 6.1.2.2), and on the 3rd party measures used to quantify responsible investing (Chapter 6.2.3). What is more, the study also shows how the sometimes-diverging motives of investment organizations and individual investment professionals are interdependent and mutually cocreate each other (see Chapters 6.1.2 and 7.1.1), and how the interplay of responsible investors and 3rd party responsibility rating agencies resembles the relationship between lenders and credit raters (see Chapters 6.2.3.1 and 7.1.1).

These findings help all investors to understand how they could better operationalize responsible investing, asset managers and 3rd party responsibility rating agencies see how they are being chosen (and conversely how asset owners could choose their managers and investors their 3rd party rating agencies), and companies comprehend why and how are they being assessed by investors and responsibility raters. For all the groups, the study also provides an overview on how their peers and competitors might think about and implement responsible investing. For individual investment professionals, the study summarizes different means of promoting responsibility (see Chapter 6.1.2.2) but also shows how and why their actions are tightly constrained by the financial imperative of investing (see Chapters 7.1.2 and 7.2.2).

7.3.2 Implications for policymakers

The policy implications of the study also operate at two levels of abstraction: at a more abstract level, the implications concern how corporate responsibility should be comprehended and normatively argue what the high-level policy goals for corporate responsibility should be, while at a more practical level, the study proposes a set of mechanisms and system-level reforms through which policymakers could pursue the aforementioned aims.

The study criticizes the prevailing framing of corporate responsibility as a mere organizational problem, arguing that this – narrow, linear and business-centered (Bansal et al., 2018; Bansal and Song, 2017; Hahn et al., 2014; Chapter 7.2.3) – approach to corporate responsibility is ill-suited for dealing with such a systemic and *wicked* (Etzion, 2018) issue. Moreover, the study also argues that even though corporate responsibility is a multifaceted and socially constructed term, some approaches to it do have stronger argumentation behind them. Assuming that the fundamental aim of policymakers is the common good in the long term, aspects such as the biophysical basis for life on Earth (Steffen et al., 2015), or demographic wellbeing and (in)equality (OECD, 2019) cannot be neglected from the equation of corporate responsibility. Regarding the archetypes of corporate responsibility perspectives, only the *Doughnut economics* (Raworth, 2017) perspective fully incorporates the aforementioned key aspects in a *strongly sustainable* (Landrum, 2018) way. Hence, the study urges policymakers to base their corporate responsibility policy goals on the viewpoints of sustainability science, ecology, development studies and *Doughnut economics*, and apply *complex systemic*, even *paradoxical*, lenses to analyzing it (see Chapters 7.1.2 and 7.2.3).

What is more, the study proposes that the largest obstacles to shifting our capitalistic system towards this type of *strong sustainability* (Landrum, 2018) are inherently systemic. The study argues that some of the most fundamental obstacles to strongly sustainable forms of corporate responsibility, like growth-dependency without *absolute decoupling* of growth from resource use (International Resource Panel, 2019), are fundamental properties, not temporary malfunctions of our capitalistic system (see Chapters 7.1.2, 7.2.2 and 7.2.3). Given this systemic nature of the constraints, i.e. that it is very hard if not impossible for individual private actors to affect them, policymakers' role in transforming responsible investing is of paramount importance.

When it comes to the practical means to transform responsible investing, the study proposes a set of six mechanisms driving the status quo of Nordic institutional responsible investing (see Chapter 7.1.1 and Figure 5) and briefly discusses some of the key reforms truly responsible investing would require at the systemic level (see Chapter 6.1.2.2). For policymakers, these mechanisms may serve as "leverage points" (Etzion, 2018) in which they may use their power to regulate and incentivize key actors involved in responsible investing (see especially Mechanisms 1 and 5 in Chapter 7.1.1), invest in overcoming technological and knowledge-related limits to operationalizing responsible investing (see especially Mechanisms 4 and 6 in Chapter 7.1.1) and pursue affecting the general societal opinion on the fundamentals of capitalism (see especially Normative antecedents of responsibility in capitalism and Mechanism 1 in Chapter 7.1.1).

7.4 Limitations and avenues for future research

Although this study claims to be knowledgeable of its relevant theory, grounded in its empirical data and rigorous in constructing its arguments, it has its clear limitations, too. In this chapter, the reservations and limitations of the study are discussed from the points of view of external validity (generalizability), construct validity (validity of the studied concepts) and reliability (repeatability). Based on these limitations, as well as on the key contributions and implications from the previous chapters, some avenues for future research are also proposed.

External validity, as discussed in Chapter 5.4, refers to the generalizability of the study's claims. In this regard, two major reservations should be acknowledged. First, the study focuses solely on the Nordics. For the very reason that this scope was chosen – the institutional context is rather homogenous, that is – the study's claims cannot be fully generalized outside the Nordic context. As for instance Matten and Moon (2008) show in their seminal paper on comparative CSR, differences in the institutional context yield quite different CSR outcomes, too. Moreover, even though previous studies have proposed noticeable differences among Nordic countries (see e.g. Scholtens and Sievänen, 2013; Gjølberg, 2010), this study does not address these differences but treats the Nordics as a single entity, which, on the other hand, might be justified if the focus of comparison is at the global level. Second, the study deliberately focuses on just certain types of institutional investors (for reasons discussed in Chapter 5.2), meaning that the findings might not be generalizable to investors like PE funds, family offices, hedge funds or retail investors.

These reservations for generalizability are especially true for the most exact and empirically-grounded parts of the study, such as the lists of motives (Chapter 6.1.3) or investment professionals' personal opinions (Chapter 6.1.2). Some parts of the study like the framework in Chapter 7.1.1, however, make claims about the existence and effect of certain mechanisms (such as that the societal antecedents affect the motives of investors in Mechanism 1) rather than describing what their exact consequences are. Therefore, it is reasonable to propose that even though the findings cannot fully be generalized outside the Nordic institutional investment context, the mechanism-related implications (Chapter 7.1.1) might still be relevant outside the study's main scope, too.

Another reservation worth discussing is the construct validity of the study. For instance, one might ask whether a different research approach, different research questions and constructed concepts, different units of analysis, a longitudinal (time-variant and process-driven) approach or even a different cognitive framing – in which regard the study itself proposes investors to be myopic! (Chapter 7.2.3) – might have better suited for grasping the essence of the studied concept, responsible investing. As discussed by recognized thought leaders in qualitative management research like Eisenhardt, Gioia and Langley (Gehman et al., 2018), such a variety of methodological choices mean that no inductive study can achieve ultimate construct validity but is inevitably a reflection of the researcher and his or her methods. This study combines both interpretivist *Gioia methodology* (Gioia et al. 2013) and Eisenhardt's (1989) case research, so its claims are likely to be somewhere in between accurate but not very generalizable descriptions of the issues at hand, as Gioia comments his style (Gehman et al., 2018), and less nuanced but more robust pieces of testable theory, as Eisenhardt describes her method (ibid).

What is more, also the reliability (repeatability) of the study must be discussed. In addition to the possible interviewer and interviewee biases discussed in Chapter 5.4, one obvious shortcoming decreases the reliability of the study: its sample size. Though a sample of 18 interviews from 18 different investors can be considered a sufficient one for a master's thesis, it is still quite small compared to case studies in top tier journals. Moreover, interviewing only one investment professional per case company increases the risk that some of the empirical data has a high interviewee bias, i.e. that it reflects more the interviewed person's than the investment organization's views. Nevertheless, the perceived saturation of the empirical data indicates that even though very decisive claims cannot be made from such a small sample, the results are likely to indicate similar high-level implications than a larger sample would.

Finally, a few directions for future studies can be proposed. Naturally, future studies could address the limitations of this study by expanding the geographical and temporal scope, using a larger sample size including multiple respondents from each case organization and applying different research approaches, units of analysis and even cognitive lenses. One of the goals of this inductive study was to create Eisenhardtian (1989) pieces of testable theory. In this case, the lists of motives and practices in Chapters 6.1.3 and 6.2.2, respectively, and especially the mechanisms in Chapter 7.1.1 could be deductively tested by qualitative and quantitative future studies. What is more, the study has provided a high-level systemic view on the topic, meaning that each of the subcomponents of the framework in Chapter 7.1.1, like the institutionalization of corporate responsibility or the interplay between investors and 3rd party responsibility rating agencies, could each serve as individual research themes. While this study has pursued to answer questions like *why* and *how* responsible investing happens, the boundary conditions for these findings, i.e. *when* responsible investing happens, could be studied, for instance in similar manner that Gond et al. (2017) describes the boundary conditions of individual-level microfoundations of CSR.

Most importantly, further studies should, in the spirit of this study, seek to understand the systemic picture and constraints of corporate responsibility in an intrinsically interdisciplinary way. This resembles the Academy of Management's (George et al., 2016) call for *Understanding and tackling societal grand challenges through management research*, OECD's (2019) agenda for redefining the fundamentals of capitalism, or Business and Society's (de Bakker et al., 2020) criticism of mainstream CSR literature that is blind to the "*elephant in the room*" (ibid) – the systemic constraints to CSR.

8 Conclusions

In recent years, business practitioners, policymakers and academics have become increasingly interested in corporate responsibility. The superficial use of the term, however, has hidden the breadth and complexity of perspectives on corporate *responsibilities* behind a boilerplate buzzword. Management literature has studied the topic extensively but has mostly seen it as a linear business problem. From the perspectives of sustainability and systems sciences, ecology and development studies, mainstream corporate responsibility research is hence quite detached from the most important issues in ecological sustainability and the long-term wellbeing and equality of the humankind. Moreover, few studies have ventured to approach corporate responsibility from a complex systemic perspective or seek to connect the business-driven and sustainability science-focused approaches.

To address this gap, this thesis studies the investment application of corporate responsibility, responsible investing, in the context of Nordic institutional investors. The three main research questions are: i) why institutional investors operationalize (comprehend, practice and measure) responsible investing, ii) how they do it and iii) what kinds of perspectives on corporate responsibility these operationalizations reflect. To give a novel and critical perspective on the topic, the study uses an inductive grounded approach that seeks to produce new pieces of testable theory based on an interdisciplinary review of literature and 18 semi-structured interviews of Nordic asset owners and managers.

The study contributes to corporate responsibility literature in several ways. First, it thoroughly analyses the organizational motives that Nordic institutional investors have for responsible investing and discusses their relative importance for the investors. Namely, investors' interest in responsibility seems to be driven by the financial imperative of fiduciary duty. This is seen explicitly in investment performance-related motives that directly address the fiduciary duty, but also implicitly when investors retail clients' and employees' non-financial responsibility motives are projected onto investment organizations' marketing and recruiting motives, respectively. In addition, investors aim at learning about responsible investing by doing it – to then reap the other mentioned benefits. Regarding the relative importance of the motives, long-term investment risk management seems to be the motive for responsible investing. The second most important motive seems to be legitimacy signaling by complying with responsibility certificates and agreements, though this finding is less decisive. Moreover, both risk-focus and legitimacy signaling seem to be more important for asset managers than for asset owners. Second, the study elaborates how investors practice responsible investing, and how these practices emerge. Though a list of widely recognized practices is identified, the findings show how these are a subject of fierce debate and how the conflicting opinions stem from differences in the type and mandate of the investment firms as well as from differences in how investors comprehend responsibility. Third, the study explores how measures of responsible investing are jointly created by the investors and 3rd party responsibility rating agencies, proposing that investors and responsibility raters are mutually interdependent somewhat analogously to lenders and credit raters. In addition, the study identifies a list of ideal characteristics for such measures, but notes, similarly to the practices, that also these characteristics are fiercely debated. Fourth, the study introduces a novel framework that proposes how the aforementioned motives, manifested practices and contextual antecedents are interconnected through six key mechanisms. Finally, the study discusses what kind of perspectives on corporate responsibility the responsible investing practices of Nordic institutional capital currently reflects, concluding that the *iron cage* of fiduciary duty is the main constraint for the most advanced types of corporate responsibility to emerge.

These contributions have important implications for the literatures concerning responsible investing, its social construction and institutional isomorphism, and its systemic, (un)sustainable and paradoxical nature. For managers and policymakers, the study provides a new systemic and paradoxical framing of responsible investing and discusses how transforming responsible investing towards strong sustainability depends on wide system-level reforms – even at the level of fundamental properties of our capitalistic system, such as growth dependency in the absence of absolute resource decoupling. Acknowledging its limitations especially related to a narrow geographical focus on and a limited sample size, the study encourages future research to replicate and deductively test its claims. Hopefully, this study can serve as an example that management research can be used to pursue sustainability-scientific ends and pave the way for future scholars who dare to ask fundamental questions about issues that are fundamental.

”En ehkä ole päässyt mihinkään perille, mutta työ on tehty ja vaiva nähty, ja nyt aion juoda ja syödä jumalaiseen aamunkoittoon asti.”

Pentti Saarikoski, Foreword for the Finnish translation of Homer’s Odyssey, 1972

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Appendix

Appendix A: Sources for the analysis on the leading 3rd party responsibility measures

	Interviews	Academic sources		Non-academic sources			
Measure	**Mentioned during interviews**	**Escrig-Olmedo et al. (2019)**	**Douglas et al. (2017)**	**Novethic (2014)**	**Sustain Ability (2019)**	**SICM (2016)**	**Harvard (2017)**
MSCI ESG	X	X	X	X	X	X	X
Sustainalytics	X	X	X	X	X	X	X
ISS Oekom	X	X	X	X	X		X
Robeco SAM	X	X	X	X	X		X
Bloomberg ESG	X	X	X	X	X	X	X
Carbon disclosure project	X		X	X	X	X	
Refinitiv ESG		X	X	X		X	X
FTSE Russell		X	X	X	X		
Vigeo Eiris	X	X	X	X	X		
ECP ESG		X	X	X			
Reprisk	X	X	X	X		X	X
Covalence			X	X			
Maplecroft	X			X			
Trucost	X			X			
The Upright Project	X						
Influence Map	X						
Impact-Cubed	X						

Table 15: Triangulated sources for compiling the list and analyzing the characteristics of leading 3rd party responsibility measures

Measure	Rating agency's publicly available methodology reports utilized (all accessed on March 02, 2020)
MSCI ESG	https://www.msci.com/documents/10199/123a2b2b-1395-4aa2-a121-ea14de6d708a; https://yoursri.com/media/msci-company-sample-esg-rating/view
Sustainalytics	https://www.sustainalytics.com/esg-ratings/#1530569060054-8b9ec33c-bfff
ISS Oekom	https://www.issgovernance.com/esg/ratings/corporate-rating/ (downloadable brochure)
Robeco SAM	https://www.robecosam.com/csa/csa-resources/csa-methodology.html; https://portal.csa.spglobal.com/survey/documents/DJSI_CSA_Measuring_Intangibles.pdf
Bloomberg ESG	https://investmentsandwealth.org/getattachment/fdf4d0e3-adc0-487a-bbe0-624cdefb3b2f/IWM17NovDec-ESGNoPlaceToHide.pdf; https://www.bloomberg.com/impact/products/esg-data/
Carbon disclosure project	https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/000/233/original/Scoring-Introduction.pdf; https://www.cdp.net/en; https://cdp-jp.net/common/cms_editor/uploads/files/2018%20Japan%20Workshops_Scoring.pdf
Refinitiv ESG	https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/esg-scores-methodology.pdf
FTSE Russell	https://research.ftserussell.com/products/downloads/ESG-ratings-overview.pdf?_ga=2.40980645.681684282.1583132681-2015307619.1583132681; https://sustainability.com/wp-content/uploads/2016/07/rt_r5_rater_response_f4_g_esg_feb_2013.pdf
Vigeo Eiris	http://vigeo-eiris.com/about-us/methodology-quality-assurance/
ECP ESG	https://www.ecpigroup.com/wp-content/uploads/2019/05/ECPI_ESG_Rating_Methodology_Companies.pdf
Reprisk	https://www.reprisk.com/content/home/brochure.pdf
Covalence	https://www.covalence.ch/index.php/approach/
Maplecroft	https://www.maplecroft.com/; https://sustainability.com/wp-content/uploads/2016/07/rt_r5_rater_response_maplecroft_feb_2013.pdf
Trucost	https://www.trucost.com/capital-markets/; https://www.spglobal.com/marketintelligence/en/documents/mi_risk_316519_trucost-fi-product-brochure_a4_fd_july30th.pdf
The Upright Project	https://www.uprightproject.com/about/model
Influence Map	https://influencemap.org/site/data/000/286/Methodology.pdf https://influencemap.org/page/Our-Methodology
Impact-Cubed	https://www.impact-cubed.com/Services

Table 16: Sources to rating agencies' own methodology reports used in analyzing the characteristics of leading 3rd party responsibility measures

Appendix B: Considered issues and data sources of leading 3rd party responsibility measures

Measure	Considered issues	Data sources
MSCI ESG	Climate Change, Natural Resources, Pollution & Waste, Env. Opportunities, Human Capital, Product Liability, Stakeholder Opposition, Social Opportunities CONTROVERSIES	Government, NGO and academic data sets; company disclosures; media and stakeholders
Sustainalytics	INDUSTRY-SPECIFIC INDICATORS; CONTROVERSIES	Government, NGO and academic data sets; company disclosures; media and stakeholders
ISS Oekom	Energy Management, Climate Change Strategy, Water Risk and Impact, Environmental Impact of Products, Equal Opportunities, Health and Safety, Human Rights, Suppliers, Board Independence, Shareholder Democracy, Business Ethics, Payments to Governments; INDUSTRY-SPECIFIC INDICATORS	Government, NGO and academic data sets; company disclosures; media and stakeholders
Robeco SAM	Codes of Business Conduct, Corporate Governance, Materiality, Policy Influence, Environmental Reporting, Operational Eco-Efficiency, Climate Strategy, Social Reporting, Labor Practices, Human Rights, Human Capital Development, Talent Attraction & Retention, Corporate Citizenship and Philanthropy; INDUSTRY-SPECIFIC INDICATORS	Company questionnaire, media and stakeholders
Bloomberg ESG	carbon emissions, climate change effect, pollution, waste disposal, renewable energy, resource depletion, supply chain, political contributions, discrimination, diversity, community relations, human rights, cumulative voting, executive compensation, shareholders' rights, takeover defense, staggered boards, independent directors	Government, NGO and academic data sets; company disclosures; media and stakeholders; other measures
Carbon disclosure project	Climate Change, Water, Forests, Supply Chain	Company questionnaire
Refinitiv ESG	Resource use, Emissions, [Env.] Innovation, Workforce, Human rights, Community, Product [social] responsibility, Management, Shareholders, CSR strategy; CONTROVERSIES	Government, NGO and academic data sets; company disclosures; media and stakeholders
FTSE Russell	Biodiversity, Climate Change, Pollution and Resources, Supply Chain [Env.], Water Security, Customer Responsibility, Health and Safety, Human Rights and Community, Labor Standards, Supply Chain [Social], Anti-corruption, Corporate Governance, Risk Management, Tax Transparency	Government, NGO and academic data sets; company disclosures; media and stakeholders
Vigeo Eiris	Environment, Community Involvement, Business Behavior, Human Rights, Governance, Human Resources; INDUSTRY-SPECIFIC INDICATORS; CONTROVERSIES	Government, NGO and academic data sets; company disclosures; media and stakeholders

ECP ESG	Environmental Strategy, Environmental Management, Products, Production Process, Community Relations, Employees (Human Capital), Markets, Corporate Governance	Government, NGO and academic data sets; company disclosures; media and stakeholders
Reprisk	Climate change, GHG emissions, and global pollution; Local pollution; Impacts on landscapes, ecosystems, and biodiversity; Overuse and wasting of resources; Waste issues; Animal mistreatment; Human rights abuses, corporate complicity; Impacts on communities; Local participation issues; Social discrimination; Forced labor; Child labor; Freedom of association and collective bargaining; Discrimination in employment; Occupational health and safety issues; Poor employment conditions; Corruption, bribery, extortion, money laundering; Executive compensation issues; Misleading communication, e.g. "greenwashing"; Fraud; Tax evasion; Tax optimization; Anti-competitive practices; 58 HOT TOPIC TAGS	Media and stakeholders
Covalence	Governance, Commitments, and Engagement; Economic; Environmental; Labor Practices and Decent Work; Human Rights; Society; Product Responsibility	Company disclosures; media and stakeholders
Maplecroft	Political Risk, Human Rights, Environment	Government, NGO and academic data sets; company disclosures; media and stakeholders
Trucost	Carbon and Climate, Fossil Fuel, Water, Waste, Natural Resources, Land, Water, and Air Pollution	Government, NGO and academic data sets; company disclosures; media and stakeholders
The Upright Project	GHG emissions, Non-GHG emissions, Biodiversity, Fresh water, Waste, Diseases, Diet, Physical activity, Relationships, Meaning & joy, Taxes, Jobs, Societal infrastructure, Equality, Societal stability & understanding among people, Scarce human capital, Knowledge infrastructure, Creating knowledge, Distributing knowledge	Scientific articles, Wikipedia; government, NGO and academic data sets
Influence Map	Climate Science, Global [Climate]Treaty, Climate Change Policy and Legislation, Disclosure on Relationships	Company disclosures; media and stakeholders; governmental databases (e.g. 10K)
Impact-Cubed	Carbon efficiency, Waste efficiency, Water efficiency, Gender equality, Executive Pay, Board Independence, [Product] Env. Good, [Product] Social Good, [Product] Avoiding env. harm, [Product] Avoiding social harm, Economic development, Avoiding water scarcity, Employment, Tax gap	Government, NGO and academic data sets; company disclosures

Table 17: Considered issues and data sources of leading 3rd party responsibility measures

Appendix C: Data structures utilized in classifying the initial findings

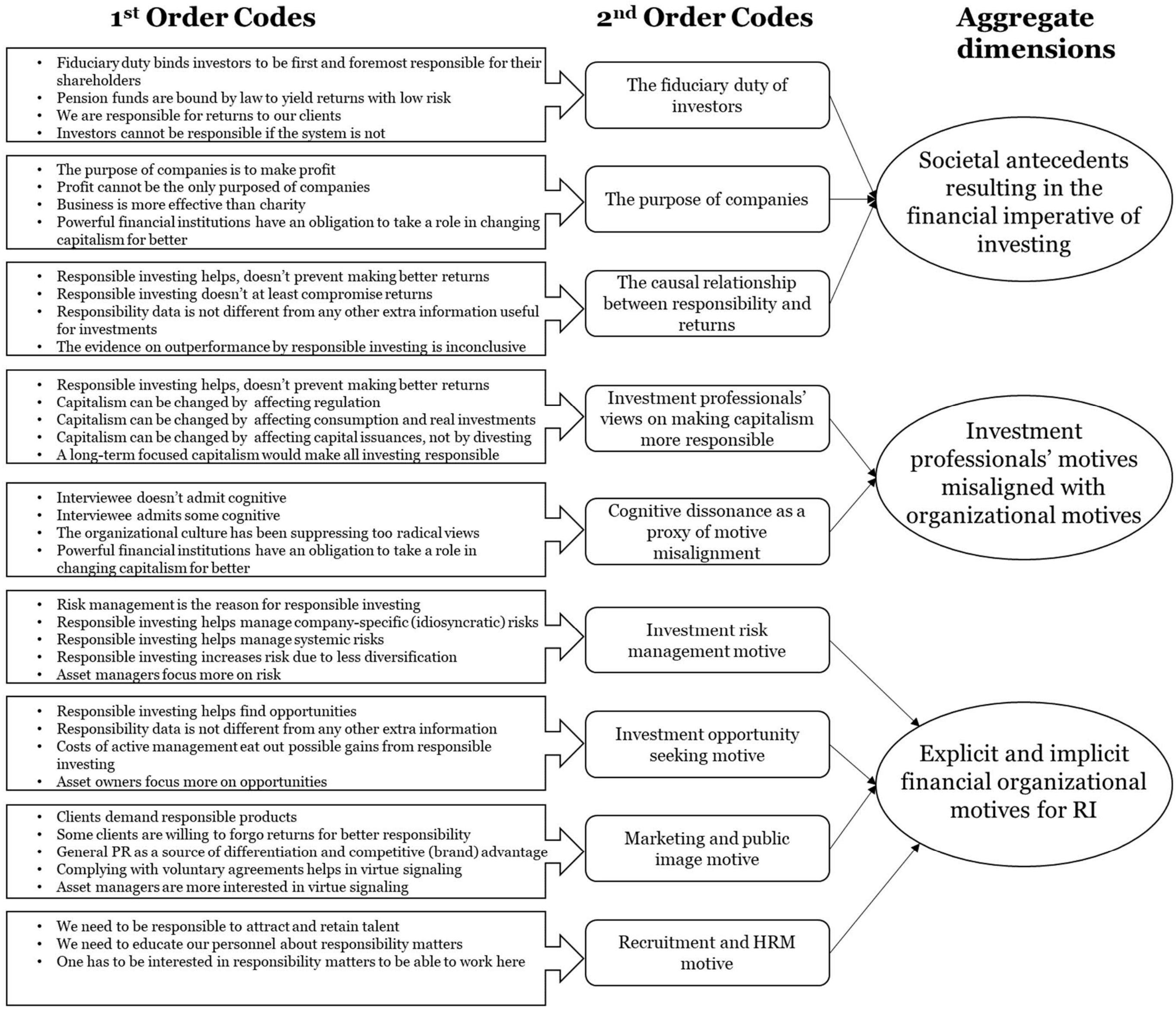

Figure 6: Data structure for the question why investors are interested in responsible investing

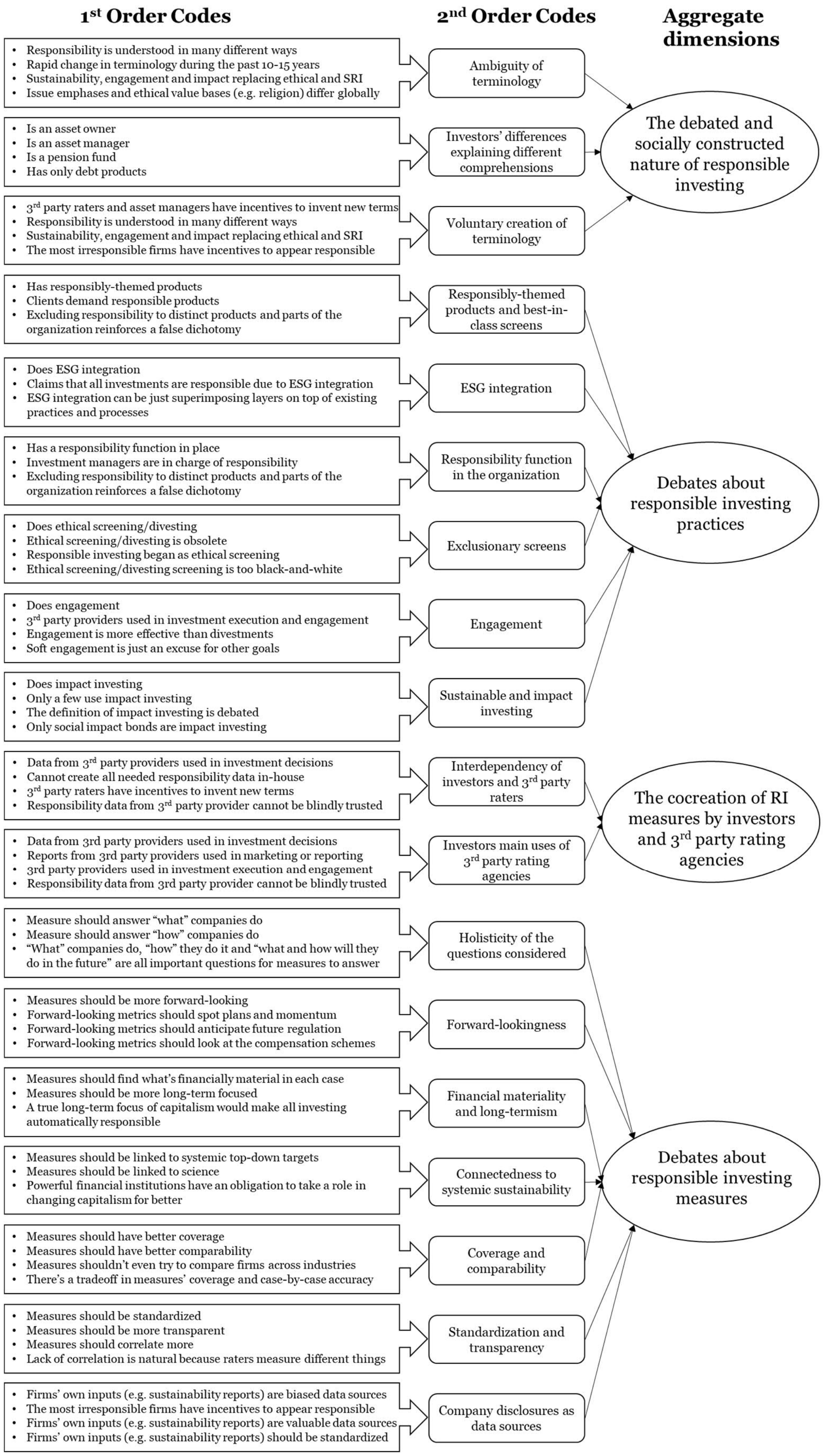

Figure 7: Data structure for how investors operationalize responsible investing

Appendix D: Interview guide

1. What is you fund’s operating model? Who are your customers? Are your an asset owner, an asset manager, a financial advisor or a combination of these?

2. Do you distinct the terms ‘sustainability’, ‘responsibility’, ‘impact’ and ‘ethical’ or use them interchangeably?

3. Do you use tools that measure responsibility of companies in which you invest? If yes, which tools? Do you provide responsible investment products or create responsibly-themed portfolios? If yes, please describe shortly.

4. Why do you measure responsibility of companies in which you invest?

5. What kind of a responsibility metric would be ideal in helping your fund achieve its business goals?

    1) What question(s) should it try to answer?
    2) What types of effects and impacts should it consider?
    3) What kind of data sources should it use?
    4) What kind of output should it produce?

6. Do you think current responsibility metrics meet these ideal characteristics? What are their biggest shortcomings?

7. How would you answer questions 5 and 6 if the focus had been on the benefit of people and planet at large instead of your fund's business goals?

8. Do you believe that responsible investments can outperform the market? Would you invest responsibly in the case that it yields lower returns?

9. Please rate the importance of the given motives to measure responsibility from 1-5 (1 means not important at all, 5 means very important). Which two motives are i) the most important ii) the least important to you?

    1) Managing short-term risks and price fluctuations of investments (shorter than 2y time scale)
    2) Managing long-term existential business risks of investments such as major changes in regulation or consumer preferences (longer than 2y time scale)
    3) Seeking exposure to certain factors while maintaining current level of returns
    4) Seeking exposure to factors that yield abnormal returns
    5) Marketing investment products to existing customers
    6) Marketing investment products to potential new customers
    7) Improving general public image
    8) Recruiting new or motivating existing employees
    9) Complying with agreements such as PRI
    10) Other, which?

Appendix E: Interviewee titles in alphabetical order

Interviewee titles in alphabetical order
CEO
Chief ESG Analyst
Chief Investment Officer, Head of ESG
Director, ESG and Sustainable Technology
Director, Group Sustainable Finance
Director, Head of Distribution, International Sales & ESG
ESG Expert
Founder and Managing Partner
Head of Equities
Head of ESG team, Investment Management
Head of Fixed Income
Head of Responsible Investment
Head of Responsible Investments; Responsible Investment Analyst[54]
Investment Director
Portfolio Manager and Responsible Investment Specialist
Responsible Investment Analyst
Responsible Investment Specialist
Senior Strategist and Head of Corporate Governance

Table 18: Interviewee titles in alphabetical order

[54] Two persons from the investment firm attended the interview

Appendix F: A list of journals used in the primary phase of the literature review

Field	Journal	SJR Index[55]
Finance and accounting	Journal of Finance	17,97
Miscellaneous	Nature	16,35
Finance and accounting	Journal of Financial Economics	13,64
Management	Administrative Science Quarterly	13,52
Miscellaneous	Science	13,25
Environmental science/CSR	Energy and Environmental Sciences	13,10
Management	Academy of Management Annals	12,70
Finance and accounting	Review of Financial Studies	12,52
Management	Academy of Management Journal	10,76
Finance and accounting	Journal of Accounting Research	10,15
Management	Academy of Management Review	9,32
Management	Strategic Management Journal	8,84
Environmental science/CSR	Nature Climate Change	8,61
Environmental science/CSR	Annual Review of Ecology, Evolution, and Systematics	8,39
Finance and accounting	Review of Economics and Statistics	8,36
Management	Journal of Management	7,94
Management	International Organization	7,36
Finance and accounting	Journal of Accounting and Economics	6,61
Management	Organization Science	6,55
Management	Management Science	6,08
Finance and accounting	Accounting Review	5,24
Environmental science/CSR	Nature Ecology and Evolution	5,21
Management	Entrepreneurship: Theory and Practice	5,07
Environmental science/CSR	Frontiers in Ecology and the Environment	4,45
Environmental science/CSR	Global Environmental Change	4,38
Environmental science/CSR	Economic Policy	4,17
Finance and accounting	Journal of Financial and Quantitative Analysis	3,99
Environmental science/CSR	Annual Review of Environment and Resources	3,64
Environmental science/CSR	WIREs Climate Change	3,52
Finance and accounting	Review of Finance	3,47

[55] https://www.scimagojr.com/, Accessed 8.6.2020

Management	Research Policy	3,41
Finance and accounting	Review of Accounting Studies	3,38
Management	Academy of Management Perspectives	3,35
Environmental science/CSR	Conservation Letters	3,23
Management	Journal of Management Studies	3,14
Environmental science/CSR	Environmental Research Letters	2,71
Environmental science/CSR	Environment International	2,69
Environmental science/CSR	Anthropocene Review	2,65
Environmental science/CSR	Organization and Environment	2,61
Environmental science/CSR	Advances in Ecological Research	2,52
Management	Organization Studies	2,36
Environmental science/CSR	Business and Society	2,35
Environmental science/CSR	Journal of Environmental Economics and Management	2,23
Environmental science/CSR	Business Strategy and the Environment	2,17
Environmental science/CSR	Current Opinion in Environmental Sustainability	1,98
Environmental science/CSR	Environmental Science and Policy	1,92
Environmental science/CSR	Journal of Business Ethics	1,86
Environmental science/CSR	Ecological Economics	1,77
Environmental science/CSR	Business Ethics	1,72
Environmental science/CSR	Journal of Cleaner Production	1,62
Environmental science/CSR	Environment and Planning A	1,55
Environmental science/CSR	Journal of Industrial Ecology	1,49
Environmental science/CSR	Sustainability Science	1,43
Environmental science/CSR	Corporate Governance	1,43
Environmental science/CSR	Economy and Society	1,38
Environmental science/CSR	Entrepreneurship and Sustainability Issues	1,24
Environmental science/CSR	Business Ethics Quarterly	0,99
Environmental science/CSR	Sustainability Accounting, Management and Policy Journal	0,78

Table 19: A list of journals used in the primary phase of the literature review

Appendix G: The two most and least important motives for investing responsibly according to the supplementary questionnaire

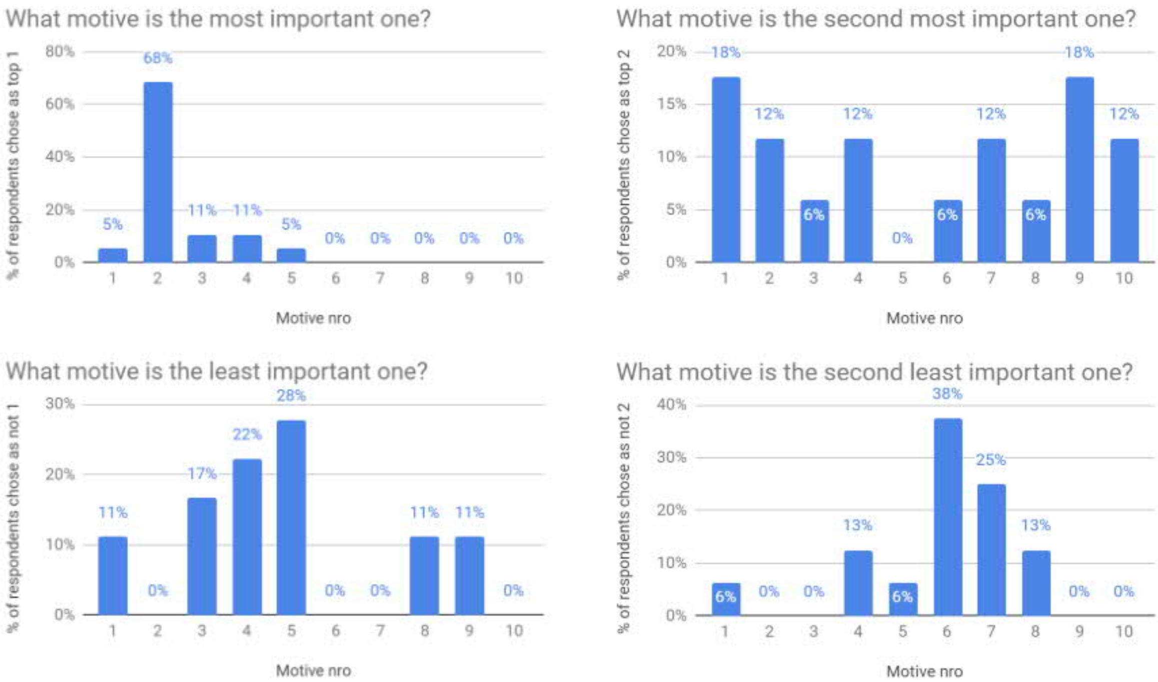

Figure 8: The two most and two least important motives for investing responsibly according to the supplementary questionnaire